S. HRG. 99-818

NATIONAL SHIPBUILDING INDUSTRIAL BASE ACT OF 1985

HEARING

BEFORE THE

SUBCOMMITTEE ON
SEA POWER AND FORCE PROJECTION

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 535

THE NATIONAL SHIPBUILDING INDUSTRIAL BASE ACT OF 1985

OCTOBER 24, 1985

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THE NATIONAL SHIPBUILDING INDUSTRIAL BASE ACT OF 1985

THURSDAY, OCTOBER 24, 1985

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON SEA POWER AND FORCE PROJECTION,
Washington, DC.

The subcommittee met in open session, pursuant to notice, at 9:06 a.m., in room SR-232A, Russell Senate Office Building, Senator William S. Cohen (chairman) presiding.

Present: Senators Cohen, Wilson, and Exon.

Staff present: Gordon G. Riggle and Mark B. Robinson, professional staff members; Russell C. Miller, research assistant; and Kathleen L. McGuire, staff assistant.

Also present: Dale F. Gerry, assistant to Senator Cohen; Henry D. Sokolski, assistant to Senator Quayle; Allan W. Cameron, assistant to Senator Denton; Alan Ptak, assistant to Senator Gramm; and Jeffrey B. Subko, assistant to Senator Exon; and Mary A. Shields, assistant to Senator Stennis.

OPENING STATEMENT OF SENATOR WILLIAM S. COHEN, CHAIRMAN

Senator COHEN. The subcommittee will come to order. Good morning.

Today we will receive testimony from a variety of witnesses on Senate bill S. 535, also known as the "National Shipbuilding Industrial Base Act of 1985."

The bill is fairly short, so I would like to read the bill language and statutory language which we will be discussing this morning.

The bill, S. 535, states:

> . . . Notwithstanding any other provision of law, the policy stated in Section 7302 of Title 10, United States Code, is hereby reaffirmed and the President is directed to report to Congress within thirty days of the enactment of this bill all actions taken and planned to implement such policy with respect to the construction of major surface combatant vessels.

The language in the United States Code which the bill references states:

> The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

On behalf of the entire subcommittee, I am pleased to welcome all our witnesses here today. Because there are 11 witnesses and we have a 3-hour time constraint, I ask that all of you cooperate

with our prearranged limits. This will allow us to have a full and balanced airing of the important issues involved in this bill.

Senator Symms will be lead-off witness on behalf of the bill he sponsored.

Senator Wilson will speak next and then join us on this side of the table as a member of the subcommittee.

Senator Cranston and Senator McClure will be joining us later.

From the House of Representatives, I am happy to welcome Congressman Glenn Anderson, Congressman Dan Lungren, Congressman Duncan Hunter, and Congressman Ron Wyden. Thank you for coming, gentlemen.

Dean John Flipse, of Texas A&M, is here in his role as chairman of the National Advisory Committee on Oceans and Atmosphere. NACOA has recently completed a major study of the role of shipbuilding in national security, and Dean Flipse will summarize that study's findings for us.

Our next witness will be Mr. John Gilbride, who is president of the West Coast Shipbuilding Association and vice president and general manager of the Seattle Division of Todd Pacific Shipyards. Mr. Gilbride will present testimony concerning the state of the west coast shipbuilding industry and speak on behalf of S. 535.

Finally, we will hear from two witnesses from the administration. Mr. Craig Alderman is from OSD, where he is the [acting] Deputy Under Secretary of Defense for Policy. And Ev Pyatt is the Assistant Secretary of the Navy for Shipbuilding and Logistics, a key administrator of the Navy's shipbuilding and repair programs.

Gentlemen, let me again welcome all of you.

Senator Symms, I believe you are first, so let's begin.

STATEMENT OF HON. STEVEN D. SYMMS, A U.S. SENATOR FROM THE STATE OF IDAHO

Senator SYMMS. Thank you very much, Mr. Chairman.

I don't know whether you have copies of my testimony, but it will be here forthwith.

Mr. Chairman and distinguished members of the subcommittee, I do appreciate the opportunity to speak today in support of the enactment of S. 535, the National Shipbuilding Industrial Base Act of 1985.

I appreciate you very much, Mr. Chairman, scheduling this hearing and hope the information given the subcommittee will be valuable, both in considering the legislation in a larger sense and considering the related issue of the decline in shipbuilding mobilization base on the west coast.

Mr. Chairman, in 1946 there were 25 major shipyards on the west coast. Today there are four of which only three are considered part of the Category One shipbuilding mobilization base as yards capable of constructing combatants in excess of 400 feet.

One specialty yard, Tacoma Boat Building Co., is in Chapter 11 and will probably require Government funds or loan guarantees to complete construction of the six TAGOS surveillance ships for which the keels of several have been laid, but work on none has been completed.

Another specialty yard which is in San Diego is reported to be in serious financial difficulty.

Of greater significance, one of the three Category One yards is widely believed to be prepared to close down for the next 12 months. For all of the other yards, regardless of the mobilization category, as construction contracts for the Carter administration are completed, the future is at best extremely bleak.

There are two factors which have brought about this situation in which the west coast shipbuilding base faces extinction.

First, there is the Government policy of nonintervention in commercial shipbuilding which has destroyed the American shipbuilding industry by forcing toe-to-toe competition by subsidized, low-wage foreign yards.

Second, many maintain that the Department of the Navy under the present administration is in error in awarding new construction contracts for naval vessels, disregarding statutory requirement to maintain shipyard facilities on the west coast.

Some legislative steps, of which this subcommittee is aware, are being taken to seek a solution to the first problem.

The purpose of this hearing and of the proposed legislation before the subcommittee is to address the second problem. That is, adherence to the law and the danger to national security posed by not following the law's intent.

The problem of maintaining west coast shipyards is not new. As early as the battleship program at the turn of the century, Congress directed construction of a certain number of dreadnoughts on the west coast. After the experience of World War I, Congress enacted further legislation to ensure viability of west coast naval shipbuilding.

A similar law was enacted after World War II and the present law came into effect in 1956 after the experience of the Korean war.

Mr. Chairman, as a responsible fulfillment of the constitutional duty of Congress to provide for a Navy, national policy in law directed sufficient construction of naval vessels on the west coast, to maintain shipyards on the west coast is not a new idea.

What is new is the apparent intent of the Department of the Navy in substituting its judgment for the judgment of Congress. The statute which the Department of the Navy has chosen to disobey is found in title 10, section 7302, and it reads:

> Section 7302. Construction on Pacific Coast. The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

That, Mr. Chairman, is a specific law. Being specific, it governs general enactment even though subsequent in time and subsequent law. It must remain in the general statutes until it is repealed. Those are fundamental principles of statutory construction we learned in high school civics.

The subcommittee should note particularly that the statute is very precise in maintaining that the Navy Department must act to maintain shipyard facilities on the west coast by having constructed such naval vessels as needed for that purpose.

The key words are "maintain" and "constructed." They have a clear meaning in our language and they are not ambiguous.

Mr. Chairman, it is for this subcommittee and the Congress to change the law, not the Navy Department. If the Navy Department wants a change in the law, it is free to recommend that legislation, but it is not free to modify, ignore or otherwise evade a national statute it is bound to uphold and charged with implementing.

Since the inauguration of President Reagan, only one new construction contract for one single surface combatant and two contracts for a total of two amphibious vessels have been awarded to Pacific yards. Three capital ships and no more.

As a result, in both the recent shipyard mobilization studies conducted by the Navy Department even in scenarios examining only the first few months of hostilities, serious mobilization deficiencies on the west coast have been acknowledged. The Navy Department has not had constructed sufficient naval vessels to maintain shipyard facilities there adequate to meet the requirements of the national defense.

On February 27, 1985, I introduced S. 535 to call attention to this fact by proposing the reenactment of the law that the Navy Department is ignoring. S. 535 ought not to be necessary. Because of the Navy Department policy, my bill is necessary as a means of restoring the intent of Congress.

Mr. Chairman, I have no pride in authorship of this bill, especially since it simply restates a law already on the books. I believe it would be appropriate for the subcommittee to consider in the judgment of the members a variety of possible options such as was done in the battleship program directing certain numbers of ships and certain classes be bid competitively on the Pacific Coast.

There are many options. I defer that to the expertise of this subcommittee with my respect for you as members of the subcommittee. One option is not, however, in my opinion, viable and that would be to do nothing or to continue to allow the Navy Department to exercise discretion in this matter.

Mr. Chairman, the distinguished chairman of the House Armed Services Committee is actively pursuing this issue. Hearings are being scheduled on a companion bill to my bill which Congressman Hunter introduced in the House, but in this case the Senate ought not wait.

I urge the subcommittee to hold closed hearings on the national security implications of our present situations and, thereafter mark up S. 535 and report it as introduced or amended to the full committee and to the Senate as full as possible.

In conclusion, I offer two documents for the record.

The first is a letter dated October 11, 1985, from the chairman of the House Committee on Armed Services. It highlights the apparent attitude which the Navy Department has adopted regarding this issue before us. [Retained in committee files.]

The second document is an unclassified page from the recent Navy Department National Defense Shipyard Mobilization Study. The study assumes significant new construction on the west coast, yet it found in pertinent part the yards on the west coast appeared to be too few to accomplish expeditiously all tasks required for that coast. [See NADES study, p. 61.]

One of those yards is already in bankruptcy, others will soon either close or follow suit. The four vital yards in the mobilization category one and two can no longer be sustained on a hold-over construction. That is the crux of the problem.

Repairs and overhauls will not be sufficient and it is incorrect to say otherwise. For that reason, I again strongly encourage the subcommittee to examine the issue in greater depth in closed session and to recognize in so doing that the classified studies explaining and acknowledging the problem were themselves based on the best case, not the worst case, and the best assumptions and not the real facts as they are now unfolding.

Thank you, Mr. Chairman and members of the subcommittee for the attention you and the subcommittee have given to my remarks and your willingness to address the major defense issue which has, in the final analysis and as the law declares, national and not regional significance.

Senator COHEN. So that no one in the audience will misconstrue Senator Wilson having less than his normal objectivity, we will allow him to testify from this side.

Senator SYMMS. Mr. Chairman, I have been handed a note that Senator Slade Gorton wants to be added as sponsor of the National Shipbuilding Act.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator WILSON. Thank you, Mr. Chairman.

I thank you and commend you for holding this hearing. I think it is important. I am grateful to have the opportunity to testify before you on the necessity of maintaining a strong and viable west coast shipbuilding and ship repair base. In doing so, I reiterate a long-standing concern about the state of American defense in general and particularly about the ability to project force through our naval forces.

The subject is one of great importance to you, Mr. Chairman. I commend you for the work you have done as chairman of the Sea Power Subcommittee. I know that you have shared the concern of the adequacy of our industrial base. I think that it is clear that the subject of our industrial base and the ability to project force are inseparable. The linkage is clear.

The trend of Navy construction, overhaul and repair work is unmistakable. It is unmistakably disturbing to anyone who shares my desire to devise a long-range plan, geared to this country's security needs and sensitive to the West's economic requirements.

Today, only 4 percent of the Navy's new construction dollars are awarded to west coast shipyards. The figure for overhaul and repair is just 29 percent—this at a time when the Pacific is host to a majority of the U.S. fleet. This trend, should it continue, would erode our west coast industrial base to a point where we no longer have a capability to endure a long-term conflict. This, to me, is a little short of unfathomable, no pun on words intended.

Moreover, there is not now any plan to systematically schedule repair and overhaul work. As a result, we function on an ad hoc

basis, patching up a Navy at a time when here, as elsewhere, we should be thinking in strategic terms.

Given Secretary Lehman's superb performance in carrying out the President's own long-range vision of a 600-ship force, it is all the more ironic that in building and maintaining this crucial weapon of national policy we seem at a loss for coherent, logical allocation of resources to sustain a 600-ship Navy.

In fact, our ships are located where the greatest danger is deemed to exist. We know, or at least we believe based on widely published reports, that in the event of conflict with the Soviet Union, our first priority would be to bottle up the Soviet Northern Fleet in the Norwegian Sea, an effort which, if successful, would deny the enemy the freedom to operate in the North Atlantic.

It would be naive in the extreme for us to assume that the men in Moscow do not have their own contingency plans for bottling up our own fleet by shutting down the Panama Canal and walling off the Straits of Magellan. Such a plan, if carried out, would effectively rule out repairs or replacement of Pacific Fleet losses.

The Joint Chiefs of Staff have presented a scenario whereby a major global conflict could begin in Southwest Asia and spread to Europe and Northeast Asia. Without a sufficient west coast shipyard capability, our surge capacity would be ineffective because the only qualified facilities would be halfway around the world.

Now, all of us share the Pentagon's emphasis on cost competitiveness. It is a fact of life that we will not have defense resources which many of us think adequate. Therefore, the allocation of those resources has become a more critical demand than ever.

Ironically, labor concessions only just instituted in Senator Cohen's home State have long since been adopted in San Diego, and to a lesser degree in Los Angeles and San Francisco. These include drastic cuts in overhead, a freeze on wages paid to higher officials, lower starting wages for all newly hired shipyard workers and cross trade capabilities.

Several west coast yards have sunk millions into expansion and modernization of their facilities. They have upgraded in order to give the Navy the highest quality facilities, at the same time trimming the higher cost of labor by making it more efficient with new equipment. These measures demonstrate a commitment to and faith in the future of west coast shipbuilding and repair yards.

A further issue that needs to be explored and considered is the effect of a downward trend in construction on the pool of skilled workers. I believe the effect could be devastating, as skilled workers, unable to find work in shipyards, move into other professions.

Would we have the luxury of time to train new skilled workers as a conflict is breaking out? I think not.

This trend is apparent. We have seen time and again that the layoffs lose us permanently workers whose skills are part of that industrial base, that industrial capability, one which we depend on in time of crisis.

Finally, I must take issue with those who dispute the wisdom of competing the carriers for a major renovation, or SLEP. For all the talk about competition, I find it hard to understand why some $4.8 billion mandays of work on west coast homeported ships have been

transferred to the Philadelphia Naval Shipyard without a competition.

Mr. Chairman, the Pacific Fleet wants their vessels repaired and overhauled on the west coast. By having the work done on the west coast, we avoid the dislocation and costs that accompany that and that is no small amount. As Puget Sound Naval Shipyard has recently demonstrated, they can have their wish, and simultaneously save taxpayers hundreds of millions of dollars.

The issue before us is not intent, but administration. We all want to keep the Navy strong, lean, and in fighting trim. I assume that we all want to institute reforms which will save money during this period of austerity, without in any way sacrificing preparedness.

I submit that all these objectives can be realized by better coordinating and managing the competitive process, and in particular awarding to the west coast its fair share of construction and maintenance work.

To do this a comprehensive plan needs to be created—a strategy that will balance the requirements for strategic dispersal of our maritime assets, the reality of reduced future defense resources, and the management of current industrial capacity and plan for the future of west coast shipbuilding and repair.

However, the only way to ensure the success of such a plan is to have all parties—the Navy, the west coast shipbuilders and elected officials—involved. I suggest that the Secretary of the Navy should establish a panel, comprised of former Naval officials, industry representatives, and senior experts in defense planning, to develop a 15-year plan for west coast shipbuilding and repair.

This panel would report directly to the Secretary of the Navy and he would make the report available to the Senate Armed Services Committee and the House Armed Services Committee.

The panel's purpose would be to develop a long-range plan for maintaining the west coast as a vital and active mobilization base. As a Nation we must work to keep the tools of peace maintained. We must show friends and enemies alike that our resolve and commitment to a free world is unshakable.

One way of doing this is by maintaining a dispersed industrial base so that the long-range security of all Americans is assured.

Mr. Chairman, thank you very much.

Senator COHEN. Thank you very much, Senator Wilson.

Now we call on the congressional delegation. Congressman Anderson, why don't you begin.

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative ANDERSON. Mr. Chairman and distinguished members of the subcommittee, I appreciate the opportunity to present some of my observations on the current conditions in the west coast shipbuilding industry and on the need to reaffirm the existing law which requires that the shipbuilding industrial mobilization base be maintained on the Pacific coast through naval ship construction.

Although I could come before this panel and discuss the dramatic effect that the curtailment of naval ship construction has had on

my district in California, I am not here to discuss a merely parochial issue, but to address this issue as it reflects on our national defense capability.

Title 10, U.S.C. section 7302, clearly states that vessels are to be "constructed" in order "to maintain" Pacific coast shipyard facilities. Title 10 was derived from Public Law 75-528, which Congress wisely passed in 1938. A scant 3 years later the need for these west coast shipyards was tragically proven necessary in the Second World War.

In the 40 years that have passed since the end of that global conflict, our Nation has not been forced to fight a major maritime power, and we have pretty much been able to control whatever sealanes we need to conduct operations worldwide.

However, we obviously cannot afford to gamble that this will always be the case. We must be prepared to meet and defeat a maritime enemy capable of operating against our forces on a global basis. And we can effectively do so only if our Pacific and Atlantic Fleets have adequate base support facilities, including shipyards capable both of performing repairs of major combat damage as well as producing replacement combat vessels and merchant ships.

I do not worry about the shipyard capacity to back up the Atlantic Fleet, as there seem to be a sufficient number of operating shipyards on the east and gulf coasts. But I do worry about the capacity to back up the Pacific Fleet if the present trend of shipyard closings is allowed to continue or even accelerate.

With the exception of monetary considerations, the Navy, for reasons that I do not understand, appears willing to sacrifice all new combatant ship construction on the west coast. By their actions in concentrating all new construction on the gulf and Atlantic coasts, they seem to indicate that any future war will be a short one, so the availability of the Panama Canal or of replacement vessels is immaterial.

I believe the policy our predecessors in the Congress established in 1938 was proven essential in the Second World War and remains equally valid today. Yet the Navy appears to be taking the position that it is not obligated to obey the mandate that the west coast yards be maintained through construction.

The Navy has, therefore, violated the letter of the law as well as the spirit. The President has repeatedly asserted his strong support for an "adequate shipyard mobilization base." The Navy bureaucrats appear to be ignoring the intentions of the Commander-in-Chief by limiting west coast shipyards to repair and overhaul work.

The requirements of Public Law 75-528 to construct in, and maintain, Pacific coast shipyard facilities is vital to the defense of this Nation. Without it, we lose shipbuilding capacity, repair capacity and especially important, the skilled workers needed to meet mobilization objectives.

The Navy apparently believes that repair work and reliance on Coast Guard construction will be sufficient to meet our mobilization needs on the west coast. This view is not supported by experts in the shipbuilding industry who assert that by relying solely on repair work, we lost expertise in shipbuilding attained only through actual construction.

We lose not only the expertise, but also the stocking of parts and equipment which are maintained automatically for new construction; this makes possible the rapid reassignment of these parts to repair battle-damaged vessels.

Reliance on Coast Guard construction provides only a very limited volume of ships. We cannot afford to rely on Coast Guard construction to support a combatant ship construction capability in the years ahead.

Despite the Navy's statement that repair work will maintain the west coast shipbuilding capability, the Navy through the planned carrier SLEP Program will send the CVA's based on the west coast all the way around the world, or else around the tip of South America, for yardwork on the east coast. This costly and inefficient scheme hardly seems to show the Navy's commitment to maintaining any shipbuilding or repair facilities on the Pacific coast, despite protestations to the contrary.

In World War II, I witnessed first hand the tremendous contribution an adequate shipbuilding mobilization base made to our successful war effort. But that was four decades ago, and I fear that some who will be testifying today have either forgotten or have never learned the lessons of that bit of history. They may even state that we do not need west coast or even a domestic shipbuilding capability.

They are doing so with a lack of understanding of the demands of a maritime conflict and the strains that it puts on our industrial capabilities.

If we listen to these voices now, and we allow our shipyards to continue closing, I fear we may have to pay a terribly high price later, for if we are engaged in a maritime conflict, we may not be able to respond appropriately or sustain a response.

We will surely pay the price for this shortsighted decision, or our children and grandchildren will be forced to pay the price for our foolheardy decision to reduce America's shipbuilding capacity on the Pacific coast, and, thereby leave our interests in the Pacific rim insufficiently protected.

Arguments that because of cost differences we should build ships solely on the east and gulf coasts are just not valid. If economics is our only concern, we might as well build our Navy's ships in Korea or Japan. Costs are much cheaper there, and they are about as far away by sea from the Pacific coast as the east coast is.

Seriously, though this is meant as a sarcastic suggestion, it is similar in logic to the Navy's assumption that by building on the east and gulf coasts, where costs may be cheaper, they are adequately responding to the need to protect the Pacific coast.

As I have stated earlier, the actions of the Navy in limiting shipbuilding construction and repair have potentially dangerous consequences.

I commend the Senator from Idaho, Mr. Symms, and my colleague from California, Mr. Hunter, whose bill I have cosponsored, for their bills which will provide a basis for congressional action to reaffirm the legal requirement that a shipbuilding mobilization base be maintained on the Pacific coast through naval ship construction.

I urge the members of this subcommittee to report Senator Symms' bill, S. 535, and to continue working to ensure that the Navy is responsive to the need for ship construction on the west coast.

Senator COHEN. Thank you.

Senator Cranston was scheduled to speak following Senator Wilson. He is here now.

With a little forbearance from the congressional delegation, we will allow Senator Cranston to proceed.

STATEMENT OF HON. SENATOR ALAN CRANSTON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator CRANSTON. Thank you very much for your courtesy.

I appreciate the opportunity to comment on west coast shipbuilding capacities. I commend you for holding this hearing on a matter of importance nationally and strategically.

In 1956, as Congressman Anderson has stated we enacted a law which states the following:

> The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

The intent of this statute is clear. For national defense purposes we must construct enough vessels on the west coast to maintain shipyard facilities there. In my view, it is also clear that we have failed to meet this requirement.

Although total U.S. shipbuilding capacity has declined over the past several decades, the west coast has absorbed a disproportionate share of that decline. Since 1982, total private shipyard employment on the east coast declined by less than 1 percent.

The west coast experienced a 39-percent decline during that same period. After World War II the west coast had 25 viable shipyards; 40 years later only four major capital ship construction yards remain—and many believe this number will dwindle further within the year.

Navy procurement policies have not given requisite consideration to the geographic balance of the shipbuilding mobilization base. In fiscal year 1984, 95 percent of new vessel construction went to shipyards on the east and gulf coasts; only 4 percent went to west coast yards.

How can we possibly maintain a viable shipbuilding capacity on the west coast with a work distribution such as this? We are in danger of losing the little shipbuilding capacity remaining on the west coast.

Why was the 1956 law enacted in the first place? And why is it important today to continue to ensure that we have adequate west coast shipbuilding capacity?

The 1956 statute was enacted to assure the retention of the industrial shipbuilding base in each region of the country—and that we were prepared to pay the cost of doing so. The overriding reason was a strategic one: The United States is bracketed by two different oceans. Shipbuilding must continue on the west coast to give the Navy flexibility in times of war when ship construction facilities are a key enemy target.

Because ship repair and overhaul work and new vessel construction require a significantly different mix of skills, equipment and facilities, it is important that both kinds of work continue to be performed in the west.

An internal DOD point paper stated that the United States has a total of 12 shipyards capable of performing naval ship construction and repair work. Nine out of this 12, 3 on the west coast and 6 on the east and gulf coasts, are combatant ship capable yards, while the remaining 3, 1 on the west coast and 2 on the east coast, are capable of amphibious warfare and auxiliary ship construction.

The report concluded that the nine major yards are the core of any construction programs, since their failure would especially weaken the industry's ability to respond to surge demand in a contingency mobilization.

In sum, Mr. Chairman, I believe we are in very real danger of losing our west coast shipbuilding capability and in so doing jeopardize our ability to respond to surge demand in a contingency mobilization.

There is another point that is too often overlooked: The increasing importance of the Pacific rim in planning for our future. Consider this: The Pacific Ocean covers 62 percent of the total ocean surface. Nine out of fifteen Navy carrier battle groups are based in the Pacific.

U.S. trade with Pacific rim countries exceeds our trade across the Atlantic with the European Economic Community by 47 percent. Pacific rim nations are now major markets for U.S. goods, buying nearly 40 percent of our exports.

The economies of the newly industrializing countries of the Pacific are by far the most rapidly developing area in the world.

Ships built on the west coast can be deployed in the Pacific far more expeditiously and supported more economically than elsewhere. It does not make sense to abandon existing resources on the west coast, particularly at a time when for the foreseeable future, the Pacific basin will play an increasingly important role in U.S. economic, political, and military affairs, in comparison with the Atlantic basin.

In ignoring the growing importance of the Pacific, the Navy is guilty of turning its back on the west and on the future, and seems instead to reflect a 19th century mindset when a 21st century vision is called for.

Mr. Chairman, I urge you to take whatever steps are necessary to enforce the law and ensure we retain a viable west coast shipbuilding capacity.

I look forward to working with you and Pete Wilson on this matter in the months ahead.

Senator COHEN. Congressman Lungren, I believe you are scheduled next.

STATEMENT OF HON. DAN LUNGREN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative LUNGREN. Thank you, Mr. Chairman.

If I might ask you to place my statement in the record.

Senator COHEN. Without objection, it will be included in full.

Representative LUNGREN. Mr. Chairman, I cannot claim, as my good friend Glenn Anderson has, to have personally observed the activities that took place on the west coast in building in World War II, despite the fact I lived all my life there.

I can say a reading of history will suggest we cannot forget what occurred at that time. I recall when my father was fighting in World War II in Europe, my mother was one of a number of volunteers who on a regular basis in Long Beach would take time out to scan the seas to see if the Japanese were attacking us.

I also recall, although they may have tried, the Germans did not quite make it to the east coast, but the Japanese did make it to Hawaii.

Our most recent experience in World War II suggests that the Pacific is extremely important in terms of our naval capability and despite our best efforts at forecasting, we cannot really know where we might be engaged in conflict in the near term or in the far term.

The Navy that we are building now, a 600-ship Navy, is one that I think we basically have consensus on in the Congress, but there are some questions that remain about our continuing capacity to build and to repair ships. History will tell us, for instance, during World War II those private shipbuilders on the west coast did an extraordinary job of producing the ships needed.

Let me just quote to you some figures from the Seattle area where the Seattle Tacoma Division of Todd Shipyards produced five cargo ships, two troop carriers, 56 small aircraft carriers and 45 destroyers. Without a doubt, the extraordinary deliveries from all the west coast necessitated by serious global conflict clearly showed the strategic significance of the west coast and its relationship to the Pacific region.

Another thing we ought to consider is that we no longer own the Panama Canal. We don't have the guarantees we may have thought we had 10 or 20 years ago when we had control and could guarantee availability.

In terms of a conflict I think we ought to consider what might occur if the canal were not available to us, if it were closed. If all we had was the capability on the east coast and Gulf Coast States. What we would do, of course, is to require those ships built or repaired there to come all the way around the southern rim of South America before they could even get into the Pacific.

One has to ask himself or herself whether that makes a great deal of sense. Mr. Chairman, unfortunately the situation appears that the fate for the west coast shipbuilders and other shipyards in the United States is that they are going to depend more and more on the situation of the Navy.

The Georgetown University Center for Strategic and International Studies forecast for U.S. maritime industries for 1989 shows a couple of major things:

One, the U.S.-flag fleet is likely to decline from the current 536 to less than 350.

The second is that the active shipbuilding base will be geared almost exclusively in the United States to naval shipbuilding and repair.

Third, any reduction in the proposed Navy shipbuilding and repair accounts will cause further decline in the private shipbuilding base before 1989.

That is why what the Navy decides to do is even more crucial for our industrial base than it was in the past. We must make decisions with respect to the Navy with some consideration as to what our mobilization base is going to be.

I do not think any of us who are here arguing that the west coast mobilization base ought to be seriously considered are suggesting to you that we throw out all questions about competition or we disregard the labor rate differential that may exist on the east coast or gulf coast to the west coast.

As my colleague, Mr. Anderson, pointed out, if cost were the only concern we had, then we would not be building any ships in the United States; we would build them all in the Pacific rim, but on the other end of the Pacific rim and they would be built in China, Taiwan, Japan and Korea. They would not be built anywhere in the United States.

We have decided there is essential necessity in the United States for a mobilization base. All we are asking is for some consideration of the west coast mobilization base which history tells us is extremely important.

I might suggest, Mr. Chairman, that the private yards on the west coast have not stood by idly and refused to deal with the question of labor rate differentials. They have made a good faith effort, in my judgment, to try to meet that consideration.

Todd Shipyards in the Los Angeles area, I think, has done a tremendous job on this in the past. There still is a differential. We are not going to argue that is not true. But our suggestion is that other things ought to be taken into consideration.

Also, Mr. Chairman, I would just ask this. If in fact we don't want this mobilization to be entirely supported by tax dollars in every instance, what signal does it send to the rest of the private yards that are left in the United States when you have the example of Todd Shipyard, Los Angeles, that has put tremendous capital investment in, $45 million in the last 5 years in capital improvements, including trains, dry docks, and port computers, significant investment in those workers for training the ones who convert, build and repair Navy combatants? When all this is said and done, they seem to find they are getting a smaller and smaller portion of the pot.

The suggestion is very strongly going to be to the private shipyard in the United States, you are not in the ball game, forget about mobilization, come to the Congress with your hat in hand sometime in the future when there is a crisis and ask Congress to put that capital investment in your facility because you cannot do it.

I do not think that is what we want to do, Mr. Chairman. I would just hope that somehow we might get the attention of the administration through your panel and through other actions in the Congress to pay attention to what the law was in the 1950's and, as I understand reading the law, if it has not been repealed by the Congress, it is still the law today.

We need to have some serious consideration of the mobilization base on the west coast.

Thank you, Mr. Chairman for having this hearing.

[The prepared statement of Representative Daniel E. Lungren of California follows:]

PREPARED STATEMENT OF CONGRESSMAN DANIEL E. LUNGREN, 42D CONGRESSIONAL DISTRICT, CALIFORNIA

Mr. Chairman and distinguished members of the subcommittee, I want to thank you for this opportunity to share my observations regarding the precipitous decline in West Coast Shipbuilding. The decision to address this issue in detail is commendable and greatly appreciated.

As a member of Congress representing one of the centers of Pacific Coast shipbuilding, I have a profound and immediate interest in the status of S. 535, and its effect of reaffirming existing law that requires that the shipbuilding industrial base be maintained on the Pacific Coast through naval combatant ship construction.

In fact, it should be noted this expression of Congressional concern about the future of West Coast shipbuilding was apparent in the recent conference report for the Department of Defense Authorization for Fiscal 1986. The report concluded that "the Secretary of the Navy shall consider expansion of the shipbuilding base on the West Coast of the United States and increase use of public yards."

Mr. Chairman, there is no question that our ability to determine the appropriate level of shipbuilding capability for national security purposes is indeed a tough task. This endeavor is made more difficult because of our own budgetary constraints, and because of events of recent weeks, a constant and grim reminder of the unstable world that we live in today.

Despite our best efforts at forecasting, the length and intensity of any future conflict is not easy to predict. Maintaining a large U.S. shipbuilding base is an expensive proposition. An insufficient base, however, could be disastrous in the event the U.S. is involved in a serious conflict. Unquestionably, national security must be examined from many aspects before we embark upon a radical policy change with respect to our domestic shipbuilding base.

We would do well to remember our history. During World War II, private shipbuilders on the Pacific Coast delivered 10.2 million displacement tons of newly constructed ships. In the Seattle area alone, the Seattle-Tacoma Division of Todd Shipyards produced 5 cargo ships, two troop carriers, 56 small aircraft carriers and 45 destroyers. Without a doubt, these extraordinary ship deliveries from all the West Coast necessitated by a serious global conflict clearly show the strategic significance of the West Coast and its relationship to the Pacific region.

We simply cannot rule out circumstances that could threaten our mobilization base. In the event the Panama Canal was closed, submarines, cruiser and other combatants built in the East and assigned to the Pacific fleet, would be forced to travel great distances to reach East Coast ports rather than the closer proximity of the West Coast.

Mr. Chairman, at the present time it would appear that our shipyards are geographically dispersed in a most prudent matter essential for national defense. Our current industrial base is comprised of 24 shipyards, not all of which have work today and only five are located on the West Coast. In addition, only Todd Shipyard, Los Angeles, is capable of constructing major surface warships on the West Coast. Obviously, any further decline in our West Coast ship building base would be a severe blow to our nation's national security interest, and to the Pacific region.

Mr. Chairman, this situation, unfortunately, appears to be the fate for the West Coast shipbuilders, and other U.S. shipyards. According to Georgetown University's Center for Strategic and International Studies forecast for U.S. maritime industries in 1989, the following observations were made:

The U.S.-flag fleet is likely to decline from the current 536 ships to less than 350.

The Active Shipbuilding Base will be geared almost exclusively to naval shipbuilding and repair.

Any reductions in the proposed Navy shipbuilding and repair accounts will cause further decline in the private shipbuilding base before 1989.

It is my deep concern that without some new combat ship construction on the West Coast, overhaul, repair and modernization of ships of the Pacific fleet may be difficult if not impossible. It seems only logical that these facilities providing service to the Pacific Fleet will be much more effective if they are also engaged in the initial construction of similar systems.

Today, the few healthy yards remaining are engaged in naval construction and repair but, and as Vice Admiral Joseph Metcalf, Deputy Chief of Naval Operations recently said, "The Navy simply cannot generate the work required either in repair, new construction or conversion to maintain the existing industrial base in any condition of profitability."

Furthermore, it is projected that to sustain the 600-ship Navy when that level is achieved, after 1989, only 18 to 21 vessels per year will be built. Based on current trends, this could mean the demise of West Coast shipbuilding as we know it today. Despite this fact, I understand that over half of our carrier battle groups will be deployed in the Pacific Ocean.

Mr. Chairman, the grim reality is that American yards, such as Todd Corporation/Los Angeles, have only one customer: the U.S. Navy. The U.S. Navy, in a commendable effort to reduce costs, tends to award most of its contracts to only a few yards.

Statistics from FY 1984 show that while the East Coast received approximately 74% of new ship construction, the West Coast received only 4%. In addition, in total Navy repair work for FY 1984, the East Coast received 67%, while 29% went to the West Coast.

The general explanation I have received regarding why fewer Navy shipbuilding contracts have been awarded to West Coast Yards is because of high labor rates there. This has resulted in the survival of mostly repair yards. There has been some progress, however, for wage concessions in order to be more competitive on the West Coast.

An October 1984 Maritime Administration report estimated "West Coast shipbuilding costs to be 4.6% higher than in the East and 9.2% than in the gulf." We cannot ignore such information. Nonetheless, we must ask ourselves whether this difference is such a determinant that our Nation should risk losing its West Coast private shipyard capability to build and support the Pacific fleet.

Mr. Chairman, I am not suggesting that we should reject the appropriate demands of competition. Indeed, I am totally committed to analyzing new approaches to improving military readiness that are not only cost-effective but also strategically proficient.

My concern, however, is that we also question whether or not repair and overhaul work will sustain the West Coast shipbuilding base to be adequate for Pacific Fleet support. With so many shipbuilders competing for this work, it is highly unlikely that these contracts will be able to sustain their capacity for shipwork. Limiting the West Coast to only repair and overhaul work, and minimal warship construction, threatens the usefulness of maintaining the skills that are needed to build complex combatant ships or to repair those damaged in battle.

Despite this difficult period for West Coast shipbuilding and repair, Todd Shipyard, in San Pedro, has implemented reforms to be more competitive. Some reforms include implementation of Japanese group technology concepts which have contributed significantly to early delivery, within budget, of all FFGs completed to date.

In addition, Todd has since 1976 invested considerably in shipyard investment. In March 1984, this shipyard dedicated the Syncrolift ship lift and land level transfer facility. This improves the yards ability to handle construction and repair of multiple ships simultaneously. In the past five years, they have spent over $45 million in capital improvements, including cranes, drydocks, and support computers. There has also been significant investment for workers who build, convert and repair naval combatants. If, in the event of a national emergency, it is quite clear that absent a viable shipbuilding base on the West Coast, this sort of shipbuilding base could not be created overnight.

I will continue to hold out hope that the criteria for new surface combatant construction will continue to take into consideration our national industrial mobilization base. If that factor is not taken into consideration, I strongly believe that warship construction capacity on the West Coast will be severely threatened. This invariably will damage United States national security.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions that members of the Subcommittee may have, and ask that my prepared statement be accepted in full for the record.

Senator COHEN. Thank you very much.
Congressman Hunter, you are next.

STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative HUNTER. Thank you very much, Mr. Chairman.

I think that Senator Wilson, Senator Gorton, Senator Cranston, and my colleagues, Congressmen Anderson and Dan Lungren, who have cosponsored a counterpart to Senator Symms' bill in the House, the bill that would reaffirm section 7302 of title 10 of the U.S. Code, have all laid out a good background and I think that for me to go over the facts again in depth would be somewhat duplicative.

What I would like to do is meet Secretary Pyatt's argument head on. I think one of the problems is that we all make opening statements and there often is not a chance to give a rebuttal. I think it is important to get into the argument and to go to the merits of this case.

I want to show you a couple of graphs that lay out very graphically the statistics that my colleagues have been talking about. These, Mr. Chairman, are the 1984 new construction awards as they are distributed among the three coasts, the top one, gulf coast, has 21 percent of the construction; the east coast, 74 percent; west coast, 4 percent.

Now, the answer to this problem, and this is a problem that my colleagues have laid out, the answer to this problem that is manifest in Secretary Pyatt's text of his prepared statement is that when we talk about shipyard capability or capacity, we are really talking about repair capacity, not necessarily construction capacity, and we are going to see to it that the yards on the west coast are taken care of by ship repair.

Let me simply say that it would seem that the logical thing to do if you have 4 percent of the work being done on the west coast and you have to maintain that industrial base, the logical thing to do would be to move the SLEP Program, which is a construction program of sorts, in fact, it is funded out of the construction program rather than the repair program, the Service Life Extension Program, it would be logical to move that program to the west coast for perhaps the west coast and east coast carriers, even though there is a substantial cost involved in moving these ships from coast to coast.

The opposite has been done. Although Secretary Pyatt says, and let me cite two of his statements here because these are the operative statements:

> The critical early requirement for shipyard capacity in national defense emergency is for repair capability rather than new construction capability.

He goes on to say:

> Therefore, when we speak of "adequate shipyard capacity for national defense," we mean repair capacity.

Now, we have some four and a half million man-days of work involved in the repair of the three west coast carriers that are now scheduled by NAVSEA to be moved to Philadelphia. This is an incredible mistake according to the former Commander-in-Chief and then Commander-in-Chief of the Pacific Fleet, and I am speaking of Adm. Sylvester Foley, and let me recite his statement. He says:

The present schedule of SLEPing of aircraft carriers at Philadelphia will leave the Navy with insufficient carriers in the Pacific to meet operational requirements. It is asinine for the Navy to destroy its carrier overhaul industrial base on the West Coast by sending these three carriers to Philadelphia. It makes all the sense in the world from an operational and strategic viewpoint to maintain our industrial base on the West Coast and to follow our successful incremental maintenance program with our carriers.

I point out Admiral Foley's statement for this reason, Admiral Foley, AIRPAC, a substantial portion of the Navy, claim they can save a billion dollars for the U.S. taxpayers.

We have been talking about competition. Secretary Pyatt is probably going to tell us we are getting 4 percent because we have not been competitive. Here is a substantial portion of the Navy claims they can save a billion dollars for the taxpayers by keeping the carriers on the west coast and could maintain a substantial portion of our industrial base.

The Navy has not chosen to explore that possibility in any depth whatsoever. In fact, it is very difficult now to find anybody from AIRPAC who will talk to you about it.

I would suggest that one function that this committee could look to in solving our overall problem besides exploring our construction problems is to perhaps invest and have a hearing on the possibility of following the AIRPAC plan which would save in their estimation a billion dollars for the American taxpayers.

So, I lay that out for you simply to show that in fact the argument that Under Secretary Pyatt is offering you to the effect that, yes, we have not given you construction work because you have not been competitive, but we are going to make up for it in repair, is absolutely erroneous.

In fact, if the west coast industrial base is in a wheelchair, we have just gotten word from Philadelphia they need one of the wheels and they are taking it and they are taking 4½ million mandays away from the west coast.

Let me finish off with one quote from Vice Admiral Fowler who was head of NAVSEA at the time that the decision was made to move the SLEP's. He said, and I quote,

It must be noted that assignment of Pacific Fleet carriers to Philadelphia for SLEP will result in a period of nearly five years where Puget Sound will have no major carrier work. This will undoubtedly adversely impact the trade skill levels in critical system areas.

I don't want to mix apples and oranges because this is a public yard at Puget Sound we are talking about, but I say it is absolutely wrong for the Navy to argue that they are serving the industrial base well, serving the Pacific Fleet well and serving the taxpayers well by going about this program of stripping us down to 4 percent of the new construction work and then, in addition to that, taking away our carriers in a very unprecedented move.

Thank you, and I would hope that those of us on the House side—at least I know we are going to have some hearings—would have a chance perhaps to respond in writing with some facts and figures to the argument that I know will be presented shortly by the Navy on this subject.

Thank you.

Senator COHEN. Thank you.

Congressman Wyden?

STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Representative WYDEN. Thank you very much.

You have had talented Californians make very good presentations on the subject. I would like to highlight some of the concerns of the Pacific Northwest, particularly Oregon.

With your permission, Mr. Chairman, I would like to submit for the record a letter from Mr. William Sayman, president of the Northwest Marine Ironworks, a major Portland contractor, and briefly express my concurrence with Mr. Sayman's views and concerns.

No one will dispute the need at this point, for both economic and strategic reasons, to have a viable strategic shipyard mobilization base on the west coast. I think everybody who has looked at our base would recognize the Port of Portland which has facilities including the largest floating drydock on the west coast and a highly skilled shipyard workforce would be an important component of that base.

As I understand it, Mr. Chairman, the purpose of this morning's hearing is to consider how much, if any, of the Navy's upcoming new construction work should be routed to the west coast shipyards.

The Portland ship repair yard does not at this time compete for ship construction contracts at all, either Government or commercial, but it does compete, compete very aggressively for both Government and commercial ship repair and maintenance work.

I also understand one of the key premises the committee is looking at is whether or not the level of repair and maintenance work currently routed to shipyards on the west coast is sufficient to adequately maintain these yards as part of our national mobilization base and whether this can be done without any significant additional new Navy construction contracts.

My position on that is, Mr. Chairman, that the Portland ship repair yards simply cannot make it without a steady, stable flow of Navy repair and overhaul work and that this flow in recent years has instead been sporadic and very tenuous.

Northwest Marine Ironworks, one of our major contractors recently was able to bid successfully on several of the Government overhaul contracts. These successes came after a 2-year drought when we had virtually no Government repair work at all.

From a coast yard perspective, I would like to have the subcommittee and U.S. Navy know if the west coast mobilization base is to be maintained solely and primarily on the basis of repair and maintenance work, I am absolutely convinced that steady and increased bidding opportunities are going to be needed.

In addition to the sporadic flow of Government overhaul and repair work in recent years, our Portland ship repair yard has been hit hard by a 50-percent reduction in the commercial repair opportunities. We previously had dominated the Alaska tanker market, but half of that business has been lost due to a combination of factors, including a slump in the Alaska oil trade, a strong dollar, and certainly competition from the newer repair yards in the Pacific rim.

Literally what we face in Portland is a double whammy where the Portland ship repair yards built with public funds including $84 million general obligation bonds, have literally lost money for the past 3 years. It is very clear it will be impossible for a yard to break even, let alone show a profit, in the years ahead unless they have a steady stream of Navy repair work.

Now, we project commercial work can provide between $50 and $80 million in gross revenues annually. The break even point for the Portland ship repair yard is thought to be about $140 million in gross revenues annually. The gap can only be closed if substantial Navy repair opportunities are available and if our contractors can successfully compete for the work.

The last point I make, Mr. Chairman, in conclusion is that if the question before the subcommittee this morning is whether or not the west coast mobilization base can be maintained solely on a diet of repair and maintenance work, the answer from Portland will be if, and only if, the number of overhaul repair work opportunities available in the future is dramatically increased and stabilized.

I would urge the subcommittee to look carefully at Mr. Sayman's letter because I think he has some practical specific suggestions on how that can be accomplished.

Other west coast shipyards may have a different perspective and perhaps a different answer to what I think we all agree is a fundamental and important question. All I can tell you is what we feel is needed in the Portland ship repair yard and we think it is illustrative of what is happening in this country.

To reiterate my view, our ship repair and maintenance capability is an important and essential component to the west coast mobilization base and we feel it has to be maintained as a viable economic and strategic entity. We think the U.S. Navy should be in Portland, is very much needed, and Portland welcomes the U.S. Navy.

Thank you.

[The letter from Mr. William Sayman, president, Northwest Marine Iron Works follows:]

NORTHWEST MARINE IRON WORKS,
Portland, OR.

Hon. WILLIAM S. COHEN,
Chairman, Subcommittee on Sea Power and Force Projection, Senate Committee on Armed Services, Washington, DC.

DEAR MR. CHAIRMAN: You are to be congratulated for conducting Subcommittee hearings on the state of the shipyard mobilization base on the West Coast. Northwest Marine Iron Works has a deep concern over the continued erosion of this important national asset and I welcome the opportunity to submit these comments to you.

NORTHWEST MARINE IRON WORKS

Northwest Marine Iron Works is a ship repair contractor whose facilities are located in the ship repair complex in Portland, Oregon. The company is one of two major contractors at the complex and has over 42 years of experience in the industry. Both contractors use the facility's drydocks (including the 960 foot Drydock No. 4, the largest floating drydock on the West Coast), berths, cranes and other equipment, deemed by many to be the most modern and efficient on the Coast.

While Northwest Marine has constructed a number of vessels over the years, the company traditionally has focused its efforts on overhauls of government and commercial vessels. On the commercial side the company primarily performs regular overhauls of oil tankers and cruise liners supplemented with emergency repairs on the wide variety of ships which call at Portland from all over the world.

The company also has overhauled government vessels for 42 years. Over the past year and a half, Northwest Marine has performed two overhauls for the Military Sealift Command and two for the U.S. Coast Guard. The company has just begun major overhauls of the USS Duluth (LPD 6) and USS Cushing (DD 985) for the U.S. Navy.

IMPORTANCE OF THE WEST COAST SHIPYARD MOBILIZATION BASE

No one disputes the importance of maintaining a strong shipyard mobilization base on the West Coast. It is my understanding that nine of the fifteen carrier-based task forces which the government anticipates for its 600-ship Navy will be based in the Pacific. Obviously, it makes economic and strategic sense to have the vital repair and maintenance capability as close to these ships as possible. The port ship repair facility and Northwest Marine Iron Works are key components of this important capability.

In addition, every wartime mobilization plan designed by the Navy or the Maritime Administration includes a significant role for yards such as ours. Ready reserve fleet vessels and others are strategically sited up and down the West Coast. In case of a national emergency, these mobilization plans provide for the very substantial use of Portland's huge drydocks and experienced work force. At this time no significant number of reserve vessels can be activated without the availability of the Portland yard.

STATE OF THE NORTHWEST SHIP REPAIR INDUSTRY

Unfortunately, the ship repair industry in the Pacific Northwest is not strong. Neither the government nor commercial market is strong enough to provide the continuity and volume of work sufficient to ensure the continued existence of this important component of our national defense mobilization base.

In recent years, we have seen a significant reduction in commercial work available to the private ship repair yards. A number of factors contribute to this trend, including the decline in size of the U.S. flag fleet, the strong American dollar, the emergence of repair facilities in Pacific Rim nations which pay wages significantly below those in the industrialized nations, and a world-wide decline in total economic activity. In addition, the Alaskan oil trade, upon which the West Coast industry is particularly dependent, has suffered greatly due to the huge surplus of oil stocks and to the general decline in economic activity throughout the world.

Unfortunately, the volume of overhaul and repair work available to West Coast yards from the United States government simply is insufficient to offset the huge decline in work from the commercial sector. This is particularly true for yards such as those in Portland which are not located in one of the Navy's huge homeports.

Northwest Marine is fortunate to have captured two Military Sealift Command and two Coast Guard contracts over the past year and half. These contracts are small, however (less than $20 million in total), and provide a relatively insignificant portion of the revenues necessary to continue ship repair operations in Portland.

The regular overhauls of the USS Duluth and USS Cushing are more significant, but even these contracts must be seen in their true context. While Northwest Marine is delighted to have the opportunity to overhaul these ships, they represent the first Navy work in Portland since the overhaul of the USS Henry B. Wilson which was completed in early 1983. During 1984, the company was provided with a opportunity to bid on only two major overhaul RFPs and both of them were withdrawn late in the year. In addition, to date the Portland contractors have been permitted to compete for no SRAs or phased maintenance overhauls.

The high value of the American dollar also is causing significant problems for West Coast yards which must compete for Military Sealift Command overhauls with Canadian shipyards in British Columbia. In 1956, at a time when there was rough parity between the American and Canadian dollars, an agreement was entered into whereby the Canadian yards could compete for overhaul contracts on certain U.S. vessels. Unfortunately since that time the Canadian dollar has dropped in value to only 72 American cents and a British Columbia yard has captured the last three MSC contracts on which they've bid. So long as the American dollar remains strong, it is unlikely that any U.S. shipyards will be able to successfully compete on these contracts.

THE NAVY'S EMPHASIS UPON COMPETITION

Northwest Marine strongly supports the Navy's emphasis upon increasing competition in the ship repair industry. We applaud the efforts of Secretary Lehman, As-

sistant Secretary Pyatt and Rear Admiral Stuart Platt for leading the Navy toward greater efficiency, economy and professionalism.

The Navy has begun to open additional bidding opportunities to the non-homeport yards and this certainly will result in additional competition and greater cost savings for the US taxpayer. To prepare itself for these additional opportunities, Northwest Marine has taken a number of steps to improve its economic efficiency. Initially, the company restructured its overhead, resulting in a reduction of approximately 50%. The company then sat down with representatives of the Portland Metal Trades Council and negotiated a special "project agreement" to reduce labor costs on certain specified government jobs. The project agreement provides for a 26% reduction in the average hourly wage, new limitations on shift differentials and tightened provisions on the application of overtime rates. In return the company is developing a productivity bonus system whereby the workforce can participate in certain merit payments as they are earned.

Because of these overhead and labor cost reductions, (coupled with significant tariff concessions provided by the Port of Portland), Northwest Marine probably is the most efficient and economical yard on the West Coast. These economies are attributable partly to the joint efforts of Northwest Marine and its work force and partly to the new competitive posture of the U.S. Navy. On the one hand, the Navy has demanded that West Coast yards reduce their cost profile; this we have done. On the other hand, the Navy has promised to provide additional bidding opportunities to encourage greater economies from competition; this also has begun to occur. This new, exciting approach will be for nought, however, if the West Coast industry does not survive the current drought in ship repair work.

SUGGESTIONS FOR SUBCOMMITTEE CONSIDERATION

Northwest Marine and the other West Coast yards face a multitude of problems, only some of which can be addressed by the Subcommittee. I would recommend, however, that the Subcommittee give serious consideration to the following:

1. Expanding west coast bidding opportunities: It is my understanding that the Navy spent only 29% of its FY84 repair dollars in West Coast private yards while spending 67% in East Coast yards. The 5-year Navy planning matrix for overhauls and restricted availabilities currently provides for only 179 contracts on the West Coast and 240 on the East Coast. Considering the fact that the East Coast already has a huge advantage in new construction dollars, this 34% advantage in repair contracts would appear to be unjustifiable. I would recommend that the repair work be more evenly distributed between East and West Coast yards beginning in FY87.

2. Eliminate "buy in" bidding practices: Northwest Marine recognizes that the Navy shares its concern over "buy in" or "low ball" bidding practices and, in fact, is the primary victim when they occur. I would recommend that the Subcommittee give this item top priority and work closely with the Navy to effect a reasonable solution as soon as possible.

3. Canadian bidding: As stated above, Northwest Marine believes strongly in the expansion of fair competition. We believe, however, that such competition must in fact be fair to all concerned. In this regard, we believe that Congress should take a close look at the impact the U.S.-Canadian agreement is having upon the West Coast ship repair industry. The West Coast yards currently are competing against Canadian yards which bid with a 72 cent dollar. The Canadians have captured three contracts in succession and there's no reason to believe they'll ever lose a contract under the current conditions. I would recommend that the Subcommittee review this issue closely and amend the existing agreement to ensure that competition between American and Canadian yards is fair to all concerned.

Again, Mr. Chairman, I thank you for holding these hearings. I would be glad to provide additional information or assistance as might be deemed helpful.

Sincerely,

WILLIAM H. ZAVIN, II,
President,
Northwest Marine Iron Works.

Senator COHEN. Thank you, gentlemen. I am sure you will have another opportunity to testify when the House holds its hearings. Thank you very much.

Our next witness is Dean John E. Flipse of Texas A&M. He is here as chairman of the National Advisory Committee on Oceans and Atmosphere.

STATEMENT OF DEAN JOHN E. FLIPSE, CHAIRMAN, NATIONAL ADVISORY COMMITTEE ON OCEANS AND ATMOSPHERE

Mr. FLIPSE. Thank you, Mr. Chairman.

My name is John E. Flipse. I am chairman of the National Advisory Committee on Oceans and Atmosphere. I assumed my duties in early March of this year and am testifying on behalf of NACOA and its studies. My current employment is as professor and associate dean of engineers at Texas A&M.

I have been a naval architect, ship designer, and merchant seaman and project manager of the carrier *Nimitz* during its construction.

To make more efficient use of our time, I respectfully request your permission to submit my prepared testimony for the record and to speak informally from notes using viewgraphs.

Senator COHEN. Your full statement will be included, Mr. Flipse.

Mr. FLIPSE. The relevance of the work of NACOA to this bill under consideration I feel is important in that it bears on several of the contentions regarding the mobilization base and the ability to conduct major marine operations during a war or conflict.

This study, the shipyards and sealift, issues of national security and Federal support was begun in 1983. We had as witnesses shipbuilders and ship operators, Maritime Administration, Navy, DOD, Members of Congress and the labor unions.

We reviewed in depth the DOD conflict scenarios, the mobilization plan, the sealift needs and ship activation plans. It is my conviction that this is indeed an objective, thorough and balanced review of the subject.

The question raised basically was how can the United States ensure that adequate sealift capacity will be available if and when needed in the most cost-effective manner and what shipbuilding capacity is needed to mobilize, build and repair the ships required to fight a major war.

The last question was what Federal supports are needed to provide this capacity. As the data base, the panel studying the subject used the Joint Chiefs of Staff defense plans, the status and outlook of the United States and shipbuilding industry collected from the sources noted above, and the review of existing Federal support for shipbuilding and ship operation.

The Joint Chiefs of Staff scenario of a worst case 3-year nonnuclear global three-theater conflict which involved two major extended sea battles was an extremely impressive model for this analysis.

Our conclusion after reviewing these data was that a modern global nonnuclear conflict will be fought with naval and sealift vessels that are already in existence. I think this is an important point for the bill under consideration.

Our review of the status of the shipbuilding and shipbuilding industry shows that shipbuilding has resulted in a very large fleet of which 15 to 20 percent is currently laid up. With an order book of 31 million gross tons—that is world order book—it is down 75 percent in the last decade.

The United States is the tenth largest shipbuilder with only approximately 2 percent of the ship orders. Many shipyards have

closed since 1974 and interestingly 75 percent of the current Navy work is in 4 shipyards with 50 additional shipyards sharing the 25 percent balance.

The United States has 500 commercial merchant ships of over 1,000 gross tons. It has 105 shipyards capable of building or repairing such ships or on the commercial side we basically have 5 ships per yard.

In addition, the Navy has doubled or more than doubled its sealift capability in near ready ships. Hence, we believe that the United States has more than enough shipyards capacity to permit a free market economy to operate in shipbuilding.

A major area of concern was the question of surge capacity, the ability to get enough ships to sea in time. This effort has resulted in a considerable expanded Ready Reserve fleet.

The shipyards that are currently doing both Navy and merchant work are operating at 30 to 50 percent of their capacity with second and third shifts possible in most of these yards. A sixth or seventh day of operation of these yards would, therefore, produce probably six times the current shipbuilding capacity that is now employed.

I think the significance of these data is that there exists in the United States a very high base for building ships.

In commercial shipping we now have 6 active lines which are down from 19 in 1970 and they have between them and the private ownership, the company ships, and so on, a total of 500 ships of which about 350 are useful or potentially useful to the military. This suggests, then, on the sealift side or the commercial side that there is again adequate capacity.

It is interesting to note that if you disregard the large surge of workers that occurred during World War II that the number of shipyard workers has risen constantly over the past 60 years. The conclusion, then, that NACOA reached was that the extensive support has helped the shipyards, but did not help the shipping companies.

As the basis for using the foregoing data, NOCOA has reached four major conclusions.

The first conclusion is that in the event of outbreak of a major conflict, ships on hand—more than shipyard capacity—is the criteria. I think we have developed this before. The important thing to realize is that breaking ships out of a reserve status or conditioning ships to serve wartime needs involves maintenance, followed by battle damage repair, and then replacement of vessels lost during the conflict.

Our second conclusion, was that projected shipyard capacity sufficient for mobilization exists and that no Federal support is necessary beyond the peace time defense contract work. This is truly believed because of the increased prepositioning of military assets, the increased numbers and readiness of Government-owned ships, the available capacity to convert U.S. or U.S.-owned foreign ships or, in fact, foreign ships themselves that we do have these capabilities.

Also, there has been excellent work done on planning premobilization installation of sealift enhancement features as they are called now—in my war they were defense features—the capability

of installing the capability needed to take a merchant ship and make it serve a military purpose.

Our third conclusion was the fact that ships have been required to be built in the United States that has in fact impaired the U.S. ship operators' competitiveness, has created a minimum amount of commercial work in the yards and has probably contributed to the decline of the U.S.-flag fleet.

The spate of the U.S. order book proves, at least recently, the build in the United States doctrine has not worked. The shippers' problems resulting include the fact the ships take much longer to build in the United States. They involve more debt service, they involve more upkeep as many of these ships are fancy in terms of their powerplants and their equipment, and they are, therefore, less competitive with alternate transportation such as the coastwise shipping business has, in fact, about disappeared compared to trucks, railroads and other methods.

The operators claim, and this was a complaint we heard frequently, that ship costs are their major problem.

Our fourth conclusion is that recent proposals to aid U.S. shipyards are either too small in scope, do not address the main problems, or would, in fact, create larger problems.

The current overcapacity shipbuilding is, in fact, the problem. Increased availability of more useful ships in terms of their military usefulness in the commercial sealift fleet is, in fact, the cure.

Based on its studies NACOA has made several recommendations.

The first recommendation is the opposition to Federal support proposals designed to preserve present excess capacity. The operative word there, of course, is "excess." The Federal-funded U.S. commercial sealift ships are and will be problems because of their higher first cost, higher maintenance cost, the continuing need for subsidy and the penalties of debt service.

Military shipbuilding and military and commercial and ship repair will provide an adequate or more than adequate mobilization base for marine operations.

Our next recommendation was that NACOA recommends decreasing dependence on the Government-owned Ready Reserve Force and reducing the size while increasing the readiness of the Reserve Sealift Fleet.

The annual cost of a Ready Reserve Force sealift ship approaches $1 million a year. From less than 50 and to more than 140, these ships have been added to the Navy's inventory, but it is extremely expensive. NACOA, therefore, believes that expanding the commercial fleet with privately maintained, competitive, militarily useful ships, manned by experienced U.S. seamen, would, in fact, enhance the U.S. readiness at considerably reduced cost.

A gratuitous suggestion was that the Ready Reserve Force ships should be geographically dispersed to permit the use of more of the shipyards, tugs, and so forth, while decreasing the vulnerability of this asset.

Our next recommendation was that the adapting of commercial vessels for military purposes should continue. The problem basically is that many new ships are too big, they have too deep drafts. They have little onboard cargo gear, they have too few decks, and so on, to be militarily useful.

New methods are needed to handle military cargoes such as jumbo containers, pallets that will handle tanks, and similar mobile equipment and certainly provide for offloading on the beach or in less than ideal port conditions.

It is NACOA's belief that up front payments for early installation of these sealift enhancement features should be encouraged for new U.S. ships as well as for retrofitted U.S. ships, regardless of where they were built.

Our next recommendation was that there continue to be available, with training, U.S. crews. Our study indicated that there was considerable concern that even if the ships were in existence and were readily useful, that the number of American merchant seamen would be limited. Obviously if the commercial fleet is in hand, this will help solve the problem identified.

Regarding Government support, the next slide, which is recommendation five, states that NACOA recommends unlinking the shipping and shipbuilding policies. We realize that shipping and shipbuilding are always intimately connected, by the policies by which the U.S. ships have to be built in U.S. shipyards in order to gain Government support.

Building in the United States is not necessary to maintain the mobilization base. Solving the shipbuilders' nonproblem makes a very real problem for the shipper as we have previously demonstrated. We must unlink these two activities.

In addition to encouraging the growth and competitiveness of the U.S.-flag fleet with its many contributions to cost-effective lift capability, NACOA recommends, No. 6, the amendment of other maritime statutes that impair competitiveness. This would get into the issue of reduced crews and their cost, increased efficiency of the ships, and we feel that this could be rewarded with an incentive fund which would be used to replace the operating differentials subsidy which is now in position.

If we eliminate many of the features of the manning laws, such as the crew size, the inability of American officers to serve as both deck and engine officers, and the need to maintain a three-watch system for all people on board, that this would also provide more efficiency in the U.S. merchant marine operation.

An additional suggestion is that the ad valorem taxes for overseas repairs be abolished in order to permit our merchant marine to be more competitive.

Recommendation No. 7 would suggest that we implement incentives to attract foreign registered vessels to the U.S. flag with the emphasis on having more useful well-manned sealift ships available in time of need at lowest cost to the taxpayer.

This would seem to be a device. The possible methods of doing this have been previously cited in terms of enhancing the operation of American ships.

As our next recommendation, NACOA recommends foreign building for domestic trade ships. We recognize the problem here and the purposes and sanctity of the Jones Act.

However, a decade of co-production of militarily useful seagoing cargo ships could add some newer cost-effective ships, increasing our mobilization base. It could also provide modern diesel ships which are amenable to small crews and encourage change in man-

ning laws. It might recapture trade from other carriers such as railroads and trucks, and so on.

However, an important concern here is that the coastal inland, river ships, tugboat builders, and so on, must be protected from any use of foreign ships in their areas of operation.

This concludes my remarks, Mr. Chairman. I will be happy to answer questions at your leisure.

[The prepared statement of Mr. Flipse follows:]

PREPARED STATEMENT BY JOHN E. FLIPSE, CHAIRMAN, NATIONAL ADVISORY COMMITTEE ON OCEANS AND ATMOSPHERE (NACOA)

Mr. Chairman and Members of the Subcommittee, my name is John E. Flipse. I am pleased to be here today on behalf of the National Advisory Committee on Oceans and Atmosphere, or NACOA.

Currently I am Associate Vice Chancellor and Associate Dean of Engineering at Texas A&M University. Previously I have held numerous research and administrative positions in industry including Chairman, President, and Chief Executive Officer of Deepsea Ventures, Inc. (the first U.S. deepsea mining company). At Newport News Shipbuilding I directed the company research program and was project manager of the nuclear aircraft carrier, NIMITZ. I have taught at the U.S. Merchant Marine Academy and New York State Maritime College. I have long been active in the Marine Technology Society and am currently the Society's President. I have also held a number of positions in the National Research Council, the Society of Naval Architects and Marine Engineers, and the National Security Council Interagency Task Force. In addition I conducted the world leadership program in ocean mining and served on the U.S. delegation to the United Nations Law of the Sea Conference.

I am here to present NACOA's views on shipbuilding and sealift requirements in the national defense context. Our Committee initiated this study in May of 1983. Since that time we have heard the views of representatives of the shipbuilding industry, ship operators, the Maritime Administration and other interested Federal agencies, the Navy, trade unions, the Congress, in addition to participating in a series of classified briefings by the Department of Defense and the Navy. We have reviewed the present Department of Defense conflict scenario, mobilization plans, sealift needs and ship activation, construction and repair requirements. We have also considered the recent substantial changes in the Defense Department's inventory of assets for sealift and mobilization. As a result, we believe our report, "Shipping, Shipyards and Sealift: Issues of National Security and Federal Support," represents an objective and thorough review of the subject.

For the purposes of this study, we defined the basic issues as follows:

What is the most effective and least costly way to ensure that adequate sealift capacity will be available when required for a major conflict?

What level of shipbuilding capacity would ensure an adequate base for mobilization and new ship construction and repair in a major conflict?

To the extent that shipping and shipbuilding capacity is required, what level and type of Federal supports are needed or appropriate?

To answer these questions, we examined the current defense planning scenario established by the Joint Chiefs of Staff, the status and outlook of the U.S. shipping and shipbuilding industries, the defense requirements for ships and shipyards, and existing Federal supports for the U.S. shipbuilding industry.

For this discussion, I will start with the current defense planning scenario established by the Joint Chiefs of Staff.

Until recently the defense planning scenario was based on a NATO/Warsaw Pact conflict requiring movement of U.S. troops and supplies across the North Atlantic to Europe. The changing world circumstances, including the late 1960s discovery of massive oil reserves in the Middle East prompted military planners to begin revamping this scenario. What has emerged is a significantly changed approach to defense planning for a major conflict. In simple terms, it is a worst-case scenario, from the point of view of the subject of this testimony—a prolonged, three year, non-nuclear, global conflict, waged in three theatres, with two major periods of sea battle. We have reviewed the series of recently completed defense planning studies that have addressed the requirements for this scenario. In short, these studies conclude that a modern global conflict would have to be fought with Naval and sealift vessels already built in peacetime. NACOA concurs with this conclusion. Unlike the beginnings of World War II, where the aggressor was held off for several years while the

United States prepared for war, a modern global conflict would almost certainly mean immediate U.S. involvement.

Next, let me discuss our review of the U.S. shipping and shipbuilding industries.

What we discovered when we examined the current situation of the shipping and shipbuilding industries is, I'm sure, familiar to all in this room. Worldwide, there is a massive overcapacity in shipbuilding. In 1984, about 15 percent of the world merchant ship tonnage was idle or laid up. The worldwide commercial shipbuilding orderbook for 1984 totalled 31 million gross tons, a 75% drop in the decade since 1974.

Today, the United States ranks 10th among commercial shipbuilding nations with less than 2 percent of the world orderbook. Nonetheless, at present the United States still has one of the largest shipbuilding industries in the world. This is true despite the fact that several major shipyards have closed over the last decade, including three which have closed since 1982. But is the existing U.S. shipbuilding base sufficient to meet the Nation's needs in time of war or national emergency? We think it is. These needs can be summarized as follows:

FIVE ELEMENTS OF MOBILIZATION

Activation or conversion of sealift vessels.

Activation of naval combatants.

Accelerated completion of ongoing construction.

Routine and battle-damage repair of naval merchant sealift vessels.

Possible construction of naval and merchant vessels to replace those lost through attrition.

Fully 75% of the current Navy construction work is going to only four private yards. From this it is apparent that the number of shipyards required to provide the peacetime shipyard capacity is quite low. But, in addition, over 50 other yards are involved with the remaining 25% of the work. Also, at this time for the 500 oceangoing vessels greater than 1,000 gross tons in the U.S.-flag fleet, there are 105 U.S. shipyards capable of building or repairing vessels of this size.

This is about five ships per shipyard! Further, based upon shortfalls highlighted in various studies, the Navy has been aggressively increased its sealift readiness program. As a result, the amount of shipyard capacity needed for mobilization has decreased.

NACOA believes all additional surge capacity required for mobilization currently exists in the yards doing Navy peacetime construction, and Navy and commercial repair work. As a result, the remaining present shipbuilding capacity, which is currently substantially above that required for mobilization, is not necessary for national defense. In other words, no Federal support program for preserving excess shipbuilding capacity to meet national emergency shipyard requirements is justified. This additional capacity should be allowed to respond to general market forces, especially in light of the declining U.S.-flag fleet.

The United States has long provided protection and support to its maritime industries. Federal support has taken the form of operating differential subsidies, contruction differential subsidies, capital construction funds, the so-called Title XI ship financing guarantees, cargo preference requirements and protection of the domestic trade fleet. Most of these Federal supports were also designed to aid the shipyards by requiring ship operators to build their ships in U.S. shipyards. Domestic seagoing labor was also protected by requirements that a ship be manned by 100% U.S. crew in order to qualify for the various federal supports.

NACOA is convinced that these longstanding requirements to build vessels in high-cost U.S. shipyards have contributed to a long-term decline in U.S. waterborne trading opportunities and in the U.S.-flag fleet. Our competitive edge has been significantly dulled, if not lost.

In spite of this array of Federal supports for U.S. shipping and shipbuilding, there are currently only 6 major U.S. shipping lines, a drop from 19 in 1970. As just noted, there are currently less than 500 oceangoing vessels greater than 1,000 gross tons in the U.S.-flag fleet, down from 5,000 after World War II. Except for the tremendous World War II expansion, U.S. shipyard employment has risen fairly steadily over the past six decades. Over the same general period, however, the trend has been one of a continuing decline in the number of ships in the U.S.-flag fleet. Looking at these trends, NACOA can only conclude that our longstanding national maritime policy has done a better job of preserving our shipyard base than our U.S.-flag fleet.

Taking all of this into account, NACOA established four formal Committee conclusions. First, we concluded that:

Conclusion 1

Needed at the outbreak of a major conflict: ships on hand more than shipyard capacity.

Under current defense scenarios, sealift requirements for the initial stages of a modern major conflict depend more on the sufficiency of U.S.-controlled shipping—and on trained U.S. crews—than on shipbuilding capacity. Shipyard facilities can be expanded for new shipbuilding during a prolonged conflict. National efforts should therefore emphasize developing a viable Federal and commercial sealift fleet in peacetime, rather than preserving excess shipbuilding capacity.

NACOA concurs with military strategists who point out that a modern global conflict would have to be fought with Naval and sealift vessels already built in peacetime. The critical requirement would be for the activation and conversion of combatants and sealift vessels in the early stages of mobilization. Wartime shipbuilding capacity is required largely to replace or repair naval and sealift vessels lost or damaged in the conflict to the extent that reserve vessels and foreign-flag assets are not available. There will be time during a prolonged conflict to build up additional shipbuilding capacity if it is needed.

Our second conclusion is that:

Conclusion 2

Projected shipyard capacity sufficient for mobilization.

No Federal support necessary beyond peacetime defense contract work.

Despite several recent major shipyard closures, the United States still has a very large shipbuilding and ship repair capacity, one of the largest in the world. There is sufficient surge capacity within those yards expected to survive economically, without direct government supports, to satisfy wartime needs as defined by current defense scenarios. No Federal support of shipyards is necessary beyond the peacetime defense contract work.

Surge requirements for U.S. shipyards for a major mobilization have been lowered through several government initiatives, such as increasing the amount of prepositioned military supplies, converting a number of vessels under government control for sealift, increasing the readiness of our reserve fleets, relying more on conversion of existing commercial vessels than on wartime building of sealift vessels, and by planning more pre-mobilization work on commercial vessels in the U.S.-flag fleet. Indeed, much of the work now supporting private shipyards will improve the readiness of sealift assets, with the result, as noted previously, that less shipyard capacity would be required for a future mobilization.

The United States has more than 600 shipyards. About 90 of these have the capability for at least topside repair on a 400-foot vessel, and 29 of these are considered "major" yards with the capability to build or repair a vessel of at least 475 feet. 9 public yards (8 Navy and 1 Coast Guard) are now employed only in military vessel repair.

The major constraint on expansion of wartime shipbuilding would not be shipyard capacity, but delayed availability of such major components as propulsion plants for Navy and merchant vessels, and complex weapon systems for combatant vessels. An increase or decrease in the number of shipyards will not affect the necessary lead-time for delivery of these major components.

The present shipyard capacity appears to be substantially greater than that which would be required for defense mobilization. NACOA believes sufficient shipyards will be kept open, through military shipbuilding, military and commercial repair work and leasing of shipyard facilities to port authorities for commercial repair work, to meet this Nation's mobilization needs. This will be especially true if our sealift assets are increased and improved—as suggested in the recommendations that follow.

Our third conclusion is that:

Conclusion 3

Build-U.S. requirements have:

Impaired U.S. ship operator competitiveness.

Created minimal commercial work in U.S. yards.

Contributed to the decline in the U.S. flag fleet.

Requirements to build in U.S. shipyards have, in recent years, impaired the competitiveness of U.S. operators of oceangoing, self-propelled cargo vessels, and have contributed to the decline in the U.S.-flag fleet. Through subsidies, tax credits and increased freight rates, these measures also have imposed costs on the U.S. public at large. Despite their intent to support the domestic shipbuilding industry, the build-

U.S. requirements have failed in recent years to create substantial commercial work in U.S. shipyards.

The build-U.S. requirements have resulted in higher ship construction costs, longer construction time, greater debt service on U.S.-built vessels, as well as a consequent lagging behind the foreign competition in upgrading capital assets. All of these factors have contributed to a decline of competitiveness both for U.S. operators in the foreign trades, and for shipping against other forms of land transport in the domestic trades.

The build-U.S. requirements are inhibiting replacement of the aging "Jones Act" fleet, in addition to raising the maintenance costs for the older vessels. As a result, trucks, railroads, pipelines and barges are replacing oceangoing, self-propelled cargo vessels that would be necessary to carry military equipment and supplies overseas during a conflict. This could have significant national defense implications.

Although the United States is the largest trading nation in the world, U.S.-flag vessels carried only 16.2 percent by value, and less than 6 percent by weight, of the U.S. oceanborne foreign trade. U.S.-flag carriage of imports and exports has decreased steadily since the end of World War II.

The build-U.S. requirements were intended to guarantee work for U.S. shipyards to preserve a shipyard mobilization base. However, except for defense contract work in the yards, newbuilding orders for oceangoing cargo vessels are minimal: zero in 1983, five in 1984, and zero so far in 1985. The build-U.S. requirements are only providing minimal help to the shipyards, while at the same time increasing the capital and operating costs of the shipping industry, increasing costs to the U.S. public at large and discouraging modernization and expansion of the U.S.-flag fleet.

Shipbuilding prices are generally reported to be 2 to 3 times as high in U.S. yards as in the Orient. Up to 80 percent of the cost differential between U.S. and foreign shipping operations has been attributed to U.S. shipbuilding costs.

Clearly, U.S. shipbuilding costs are not the only reason the U.S.-flag fleet has lost its competitive edge, but ship operators have consistently asserted to NACOA that U.S. ship construction costs are *a* major, if not *the* major, factor.

Our fourth conclusion is that

Conclusion 4

Recent proposals to aid U.S. shipyards are:
Too small in scope.
Do not address main problems.
Would create larger problems.

Most recent proposals to aid the U.S. shipbuilding industry—such as a federally funded merchant shipbuilding program, renewed construction subsidies, a federally backed maritime redevelopment bank, and expanded cargo preference—are either too small in scope to be of significant impact, do not address the most serious problems, or would create larger problems.

Without going into specifics on our reasons against these proposals, let me say that in general NACOA opposes any increased Federal supports to the U.S. shipbuilding industry. The industry has over-capacity for the commercial market, and the present shipyard base is substantially in excess of the capacity needed for defense mobilization.

On the other hand, we support efforts to increase the military usefulness and the shipping tonnage in the active commercial U.S.-flag fleet. We favor increased use of private vessels as sealift assets rather than preserving excess shipbuilding capacity or increasing government control of sealift assets.

Based upon these four conclusions, NACOA offers the following recommendations on national policy for the shipping and shipbuilding industries, and related aspects of defense planning. These recommendations will increase the Nation's merchant sealift assets and the readiness of government-owned and commercial sealift vessels, and may even increase commercial work in U.S. shipyards. If the recommendations are fully implemented, they will also decrease the amount of U.S. shipyard mobilization base required for national defense needs.

NACOA recommendations will:
Increase number and readiness of merchant sealift vessels.
Increase readiness of Government owned vessels.
Decrease mobilization base requirements.
First, NACOA recommends

Recommendation 1

NACOA recommends: opposition to Federal support proposals designed to preserve present excess shipyard capacity.

NACOA recommends opposition to proposals for a Federal shipbuilding program for commercial sealift vessels—or any other program requiring major Federal funding—designed largely to provide peacetime work for U.S. shipyards and to preserve the present excess capacity in the shipbuilding base.

This recommendation does not apply to the ongoing ship construction and conversion program for specialized Military Sealift Command vessels designed for prepositioning, rapid deployment and other specific defense purposes. Instead, we what oppose are the proposals for a Federal shipbuilding program to build militarily useful merchant vessels to be sold or chartered to private operators or placed in reserve.

Such a program would penalize the taxpayer in three ways: (1) the unnecessary expense of building a ship in a U.S. yard when comparable vessels can be built for much less overseas, and adequate existing vessels can be purchased in the United States or overseas at low costs; (2) the government-owned vessels would entail taxpayer-supported maintenance costs, even if chartered or stored in reserve status; and (3) given today's market conditions, an operator would most likely require some form of federal support, be it a subsidy or tax credit, to charter commercially inefficient, but militarily useful, vessels. Building new vessels into an overtonnaged market is unlikely to produce the commercial environment necessary for the government to recoup its investment. Building vessels for reserve fleets is not cost effective.

The only justification for a major Federal shipbuilding program would be the preservation of shipbuilding capacity for national defense needs. However, NACOA has concluded that there exists excess shipbuilding capacity above the mobilization base required for these needs. NACOA believes that funding for peacetime military shipbuilding, conversion and repair is the only Federal support required for preserving a shipyard mobilization base adequate for a major conflict or national emergency.

Next, with respect to government-owned merchant sealift vessels, NACOA recommends that we should:

Recommendation 2

NACOA recommends:

Decreasing dependence on Government-owned Ready Reserve force, and

Reducing size while increasing readiness of reserve sealift fleets.

With respect to government-owned merchant sealift vessels, NACOA recommends that:

(a) In order to decrease the Nation's dependence on a government-owned and maintained Ready Reserve Force, the Navy and the Congress place greater emphasis on examining alternatives for increasing the numbers and the military usefulness of the operating U.S.-flag commercial fleet.

(b) The Navy and the Maritime Administration continue efforts to reduce the size and increase the readiness of the reserve sealift fleets, including continued scrapping of the World War II VICTORY ships and dispersing of the Ready Reserve Force vessels to locations nearer to planned activation sites.

NACOA supports the recent Department of Defense efforts to increase the readiness of the reserve fleets. Defense concerns do require that some specially designed sealift assets be under immediate government control. However, because maintenance costs for the ships of the Ready Reserve Force are almost $1 million per vessel per year, the planned expansion of this fleet would substantially increase the continuing maintenance costs. As an alternative, NACOA supports expanded efforts at finding cost-effective ways to adapt active commercial vessels, which are operated and maintained at private cost and have experienced crews aboard, and to increase the numbers of these privately owned commercial vessels.

A related concern is that of the placement of the Ready Reserve Force vessels. Today, these vessels are in only [a few] locations, which may cause bottlenecks in times of "breaking out" this fleet. There is no government plan to coordinate the towing and berthing of these vessels once broken out. Further, having them all located in large numbers at a few locations increases their vulnerability to damage or destruction by terrorists or sabateurs—as we learned at Pearl Harbor. The dispersal of these vessels should be to locations nearer to the planned activation sites.

With respect to privately owned U.S.-flag merchant vessels, NACOA recommends that the:

Recommendation 3

NACOA recommends: adapting commercial vessels for military purposes.

(a) The Department of Defense and the Congress increase the emphasis on research and implementation of methods for adapting modern commercially efficient vessels to military purposes—rather than acquiring ships that have in the past been considered more "militarily useful" but can no longer be effectively used in peacetime trade.

(b) The Navy, the Small Business Administration, and the Congress carefully examine the possibility of cost reductions in the proposed containership modification program.

(c) The Congress fund Department of Defense plans for Sealift Enhancement Features to be added to U.S.-flag merchant vessels in peacetime, with vessel owners fully compensated to the extent that such modifications interfere with commercial use of the vessel during installation and subsequent operations.

The world's merchant ships have been growing in size and sophistication to provide fuel conservation and increased efficiency, and generally have been changing in ways that make them increasingly less "militarily useful." Numerous reports on shipbuilding and sealift suggest acquiring or building non-commercially efficient vessels to satisfy defense sealift needs. This policy would only produce a government owned fleet that could not operate cost-effectively in peacetime, and would thus be acquired and maintained only to serve in case of a national emergency. NACOA supports the Department of Defense initiatives to adapt its sealift plans to the commercial fleet of the present and future, but we also encourage expanded efforts in this direction.

One such effort seeks to modify U.S.-flag containerships to carry military unit equipment, through stacking of specially designed "containers" and large pallets. While NACOA supports this concept, we also concur with industry sources who believe the costs of the Federally funded program are unnecessarily high and should be reexamined.

Because modern defense scenarios call for rapid availability of sealift assets, timely use of private commercial vessels requires the installation of "Sealift Enhancement Features" in peacetime. The Department of Defense has in its FY 1986 budget a request for almost $67 million to modify commercially active U.S.-flag vessels to increase their capabilities for communication, underway refueling, self-defense and offloading in austere and unfriendly environments. NACOA supports this effort and believes it should be fully funded. In addition, the Navy recently announced a new program to offer upfront payment for costs associated with addition of Sealift Enhancement Features in new U.S.-built vessels. NACOA supports this initiative but suggests that the Navy also consider retrofitting, with Sealift Enhancement Features, U.S. vessels built in foreign shipyards and selected U.S. owned vessels under foreign registry considered most adaptable to military use.

With respect to crew requirements for merchant vessels needed for mobilization, NACOA recommends:

Recommendation 4

NACOA recommends: ensuring availability, training, readiness of U.S. crews.

NACOA recommends that the Navy take steps to ensure the availability, training and readiness of U.S. crews needed for mobilization of reserve and foreign-flag sealift vessels; that the Navy seek, and the Congress appropriate, funding for an enhancement of the Navy's Merchant Marine Reserve.

NACOA supports the current Navy initiatives aimed at ensuring the availability, training and readiness of crews needed for mobilization. The Navy is identifying specific billets on all vessels that would be required for mobilization, seeking agreements with sea-going labor unions to identify qualified active personel, and taking other related steps. NACOA further suggests that the agreements with the labor unions be formalized, and that the critical billets for mobilization be designated for officers in the Navy's Merchant Marine Reserve.

The balance of our recommendations address specific incentives for building up our commercial sealift fleet and improving its competitiveness. We believe these recommendations will encourage the growth of the U.S.-flag fleet, provide additional sealift assets without government funding for shipbuilding, and provide more ready U.S. crew for mobilization.

Concerning the build-U.S. requirements and Federal supports, NACOA recommends:

Recommendation 5

NACOA recommends: unlinking shipping and shipbuilding policies by eliminating all build-U.S. requirements for Government supports.

NACOA recommends that the Administration and the Congress continue to unlink national shipping and shipbuilding policies by eliminating all requirements for U.S.-flag operators receiving government supports to build vessels in U.S. shipyards.

We recommend specific amendments to the Merchant Marine Act of 1936 to:

(a) Allow permanent authority for U.S. operators to build vessels in foreign shipyards and still receive Operating Differential Subsidy, or whatever supports or incentives may replace that subsidy, for operating in the U.S. foreign trades.

(b) Allow Capital Construction Fund deferral of taxes on shipping if reinvested in foreign-built as well as U.S.-built new vessels.

In addition, we recommend:

(c) Revision of regulations and administrative practice to allow Title XI Federal Ship Loan Guarantees for foreign vessel construction, with priority on loan guarantees that will provide growth and replacement in trades not already overtonnaged.

(d) Amendment of the provisions in various laws regarding eligibility to carry government-impelled cargos to allow immediate eligibility to a foreign-built vessel rather than the presently required 3-year wait.

The build-U.S. requirements are intended to preserve excess shipbuilding capacity in peacetime to ensure an adequate shipyard mobilization base for national defense needs. As discussed in our conclusions, NACOA believes these requirements hamper the competitiveness of U.S. ship operators while at the same time they have not created significant commercial orders in U.S. shipyards. The national defense needs for sealift at a time of national emergency will require the availability of U.S.-owned, flagged, or controlled ships—and trained crews—rather than on shipbuilding capacity. Measures must be taken to free the U.S. shipping industry from these unnecessary and ineffective restrictions.

Recommendation 6

NACOA recommends: amendment of other maritime statutes that impair competitiveness.

NACOA recommends that the Congress amend current maritime statutes that impair the competitiveness of U.S. vessels in foreign trade. Specifically, we recommend:

(a) Establishment of a new form of operating incentives, under short-term (5-year) contracts, that are linked to the success of measures to reduce crew size and operating costs.

(b) Amendment of the ad valorem tax provision in the Tariff Act of 1922 to exempt oceangoing, self-propelled cargo ships from the duty on non-emergency foreign shipyard repairs.

(c) Amendment or repeal of such shipboard manning laws and regulations as the "Crossover Law" and the "Three-Watch Law" to allow reductions in U.S. vessel crew size comparable to those of most other major seafaring nations.

The U.S.-flag fleet must be allowed the freedom to be competitive in the world market if it is to expand and increase its utility as a defense sealift asset—both in vessels and trained seafaring crew. NACOA proposes a program of operating incentives to be made available to all U.S.-flag operators in the foreign trades, even those not currently subsidized, during the transition period while fleet modernization and effective manning are being achieved. The supports should *not* be linked to the operating cost differential between U.S. and foreign ships. The ODS program should be terminated. Rather, the support program should take the form of annual fixed payments, based on some measure such as vessel tonnage, and provide bonuses for improved efficiency. Such a program should be set at an initial level similar to the current Operating Differential Subsidy, but should be phased down over a 5 year period. Other costs of U.S. operation could also be reduced by our recommendations that building and repairing of ships in foreign shipyards be allowed for U.S. operators in foreign trades without any ad valorem tax.

Lack of competitiveness of U.S. vessels is due not only to the higher capital costs of U.S. shipbuilding, but also to ship repair and crew costs. Dramatic reductions in crew costs have been accomplished in western Europe and Japan, without reducing wages, by substantially decreasing crew size and increasing job security. The progress of continued reforms in this country requires the amendment, and eventually repeal, of shipboard manning laws, e.g. the "three watch law" and the "Crossover law". We also recommend that

Recommendation 7

NACOA recommends: implementing incentives to attract foreign-registered vessels to the U.S.-flag fleet

NACOA recommends that the Administration and the Congress develop a package of incentives, in addition to those in recommendations #5 and #6, to attract foreign-registered vessels—under U.S. or foreign ownership—to the U.S. flag. We recommend that such a set of incentives include a liberalizing of registry regulations for reflagged vessels, giving assurances to owners that they may easily "flag out" again during a certain number of years.

Any measures that improve the competitive position of U.S.-flag vessels, such as we propose in recommendations 5 and 6, also could be considered as possible incentives to encourage reflagging of some U.S.-owned vessels under foreign registry. An increased fleet under U.S.-flag would be highly desirable for defense sealift needs, provide more jobs and training for U.S. seafaring crews, allow for Sealift Enhancement Features to be added in peacetime, and could reduce the need for expansion of the government-owned reserve fleet, and may provide more commercial work for U.S. shipyards.

Finally, in terms of our domestic trades fleet, the so-called "Jones Act" fleet, we recommend:

Recommendation 8

NACOA recommends: some foreign building for domestic trade ships

NACOA recommends amendment of the Jones Act to allow a 10-year "coproduction" period of some U.S. and some foreign building of new commercial cargo ships for the Jones Act domestic trade. We recommend that these provisions be applicable only to large oceangoing, self-propelled, cargo-carrying ships that are capable of contributing to the Nation's sealift needs in the case of a national emergency. We further recommend that the provisions be written so that U.S. operators may earn credits for orders placed in U.S. shipyards and use those credits for an equal dollar amount of construction or conversion orders in foreign shipyards; we believe such credits should be transferable.

Because every U.S.-flag vessel deemed militarily useful by the Department of Defense would be needed in a major mobilization, any continued decrease in the Jones Act fleet affects the defense sealift capacity of the Nation. NACOA strongly supports retention of the U.S. ownership and U.S. crew requirements of the Jones Act, because these vessels operate in our coastal waters and are an important part of our national sealift assets.

But, the Jones Act fleet of oceangoing, self-propelled dry cargo ships is aging and shrinking. A 10-year "coproduction" period would encourage modernization and possible expansion of the Jones Act fleet, and seafaring jobs. Reduced operating costs—with modern, efficient and less expensive foreign-built vessels with reduced crews—might allow expansion of the waterborne, coastwise market by taking some freight from oceangoing tug-and-barges and some intercity cargos from truck and rail carriage. Such a coproduction scheme may well strengthen the Jones Act fleet.

By excluding small coastal vessels and tugs and barges from the coproduction provisions, we would protect the small U.S. shipyards from competition with low-coast foreign building of tugs and barges. We may, however, increase the relative competitiveness of larger, oceangoing cargo ships by used in the coastwise trade by allowing some foreign building of these vessels.

Protections would have to be designed so that domestic operators now using high-cost vessels built in U.S. yards would not be seriously undercut by competitors entering the trade with less expensive foreign-built vessels.

NACOA believes these recommendations provide the most effective and least costly way to ensure that adequate sealift capacity will be available when needed, while maintaining an adequate shipyard base to meet this Nation's mobilization and wartime requirements, without increasing the present level of Federal supports for maintaining our national shipyard capacity.

Mr. Chairman, this concludes my presentation. I'd be glad to try to answer any questions the subcommittee may have.

Senator COHEN. Thank you very much, Dean.

What role did the Navy-MARAD studies, the Ship Mobilization Study and the National Defense Shipyard Study, play in NACOA's own study?

Mr. FLIPSE. We were privileged to see these studies, the models that were used in their analysis, and to inspect the data bases in a classified hearing. We were very impressed with these models, but we found they were very, very conservative.

Senator COHEN. How sensitive were your own findings to the assumptions contained in these two studies?

Mr. FLIPSE. We found that we could make broader assumptions which would make the conclusions of these studies even more conservative based on the witnesses that we interviewed and the experience of some of the NACOA membership.

These areas included the business of more rapid buildup, the use of second ships, the use of a 6th or 7th day of production, and so on, and the fact that there could be, in our opinion, an emphasis on reduction of civilian production, making workers and personnel available for the more rapid expansion of the shipyards in the United States.

Senator COHEN. Did your staff have any shipbuilding or repair expertise in NACOA?

Mr. FLIPSE. Yes, there were at least three members. Admiral Sonenschein is a member of NACOA who has been Chief of the Navy's Bureau of Oceans.

I cited my own experience.

Dr. Don Walsh, who was head of the panel, chairman of the panel doing the study, also has considerable experience.

We depended, though, on the witnesses who were from the shipbuilding industry, the shipping industry and Government agencies and, in fact, the report which is now available contains the details and also the citations of these witnesses.

Senator COHEN. Has your report been reviewed by anybody outside of NACOA?

Mr. FLIPSE. Yes. We have submitted the report to all of the witnesses, key witnesses, for comment and have prepared a major undertaking in terms of comparing their remarks to the text and each of these inputs has been carefully considered and normally is answered wholly in the text of the full report.

Senator COHEN. Have the Department of Defense and National Security Council had a chance to look at it?

Mr. FLIPSE. Yes, sir, they have had a chance. Advanced copies were sent out before any copies were made available to the press.

Senator COHEN. Could you submit to us any comments by the defense agencies that were submitted to you?

Mr. FLIPSE. Yes, we will be very happy to do that.

[The information is included in a letter inserted at page 97 of this hearing transcript.]

Senator COHEN. You espouse some fairly important conclusions concerning the Nation's security.

I would like to have for the record at least the comments you received from other commentators, in particular, statements on the record, comments from experts relating to the conclusions of the shipyard mobilization base.

Do you have those?

Mr. FLIPSE. We will supply those to you for the record.

[The information is included in a letter inserted at page 99 of this hearing transcript.]

Senator COHEN. What does your study conclude about wartime loss or damage to the shipbuilding facilities due to enemy sabotage, if any?

Mr. FLIPSE. The report did not involve itself in any attempt to estimate how extensive or how damaging the sabotage could be.

The experience of some of us who were involved during World War II in this program showed that the security measures were essentially effective, although the threats were probably less sophisticated than they are today.

There is considerable excess capacity. We have cited that the current facilities and personnel could be expanded by a factor of as much as six. I would trust that the national defense organization is facing this issue.

NACOA did not get descriptive or make suggestions on how it should be handled, however.

Senator COHEN. Alfred Thayer Mahan, a naval historian, wrote that a symbiotic relationship between the merchant fleet, naval forces, and shore establishment, which I assume includes shipbuilding, exists.

Your study seems to suggest that this historic relationship has been changed with more emphasis today on the naval and merchant fleet in being rather than new construction potential.

What factors contribute to this change, in your judgment?

Mr. FLIPSE. I would hesitate certainly to challenge a historian, especially with my new academic identification.

On the other hand, the evidence is very strong that through the battle of Midway in World War II the ships that participated not only in the battles, but in the sealift programs were ships that were in being then.

The evidence that we bring forth suggests not that there is not an intimate relationship between shipbuilding and ship operation in support of the Armed Forces necessary in time of war, remembering that some 98 percent of all of the actual material is going to be handled over the water rather than through the air, but that the policies that are governing shipbuilding are creating the hardship on the ship operators.

Although they supported the shipbuilding industry, they have penalized the operators. We are suggesting that the delinking take place in this area, and are not really questioning the validity of the historic observations that these segments of our marine world are interrelated.

Senator COHEN. One of the major conclusions of your study is that there is today a high base which exists in the United States for the building of ships.

The question becomes what is the strategic value of their location?

I think that is the essential argument that is being raised by those witnesses who were testifying this morning and who will testify in a moment.

Assuming your conclusion is correct that we do have an excess capacity for building of ships in this country, major combatants, is there a strategic value in terms of their location?

Mr. FLIPSE. NACOA did not specifically face this issue. The importance, I think, of our report to this discussion would be that there are yards on the west coast that are certainly capable and have recently been building Navy ships.

The expectation of maintenance of a 600-ship Navy suggests that there would be—I think Mr. Gilbride, one of your later witnesses will say—20 new buildings a year. With a normal 4- to 5-year building period for these Navy ships, this suggests there will be 100 ships in construction which is almost the same as we have had in the last couple of years and look for in the next couple of years.

Our feeling is very strongly that this activity will maintain this mobilization base. Its dispersion would hopefully be provided by the competitiveness of the west coast yards for their ability to become competitive.

Senator COHEN. Senator Exon?

Senator EXON. Mr. Chairman, thank you.

Mr. Flipse, thank you for coming here. I have been listening with great interest to your presentation.

I can look at this from a fairly neutral standpoint, because, as you can testify to, if necessary, Nebraska is not a big shipbuilding State per se. We have not produced a ship there for over 90 days, which is of great concern to us. [Laughter.]

Some of the testimony here today obviously reflects parochial interests and I hope that people will not criticize us for that because whether we are on the east coast or west coast or the midsection of this country, we do have an obligation to represent our constituents. But there is also a national interest involved here.

In listening to your testimony, I could only conclude that as far as the future is concerned, you feel that basically if we would let the free enterprise system work, we could have a better chance at becoming competitive in shipbuilding than we are today; is that correct?

Mr. FLIPSE. No, that is not correct, sir. I am afraid that the United States is not going to become competitive in the world market in shipbuilding for a whole lot of reasons, including the labor rates, the cost of money here, and the fact that other governments strongly subsidize their shipyards.

These factors are probably going to preclude the United States from competing at least in the visible future in the world ship market.

What I have tried to suggest is that if we can encourage our ship operators, the people who are running these ships, to become more competitive, that this would make more ships available, being supported by commerce and by industry and by trade and reduce the load on the Federal Government for support.

The thrust, then, has been, which I think is somewhat consistent with this administration's policy, that the military construction and the military commercial maintenance and support of these fleets will have to carry the shipyard. Evidence indicated that it has and it probably can continue to with some loss, no doubt, but no extensive losses.

In exchange for adopting these recommendations, the United States would have more commercial ships that would be militarily useful that would be manned and would be ready to serve the Nation in time of a national emergency and would, therefore, support our mobilization effort far more effectively than they would if the number is allowed to continue to diminish.

Senator EXON. The number of ships under construction?

Mr. FLIPSE. No; the number of ships in operation in the U.S. merchant fleet.

Senator EXON. What you are really saying is that you do not see much of a bright future for the shipbuilding industry. You feel that we ought to attract more ships from around the world to our flag, to make more efficient use; of our merchant marine both from the standpoint of commerce and from the standpoint of military preparedness: In other words we must face the situation realistically and acknowledge that we probably are not going to be a major factor in shipbuilding in the future while doing a better job of planning and using the resources at hand in the interest of national security.

Is that the thrust of your argument?

Mr. FLIPSE. Exactly.

Senator EXON. Thank you.

Thank you, Mr. Chairman.

Senator COHEN. We have no further questions except the written documentation we would like to have for the record.

Thank you very much, Mr. Flipse, for your testimony.

Mr. FLIPSE. I thank you, Mr. Chairman.

Senator COHEN. Our next witness is Senator Gorton, who is scheduled to introduce Mr. Gilbride.

The chair will welcome any opening remarks you would like to make on his behalf.

STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator GORTON. Thank you, Mr. Chairman.

It is a great pleasure and honor this morning to introduce John T. Gilbride, Jr., who is a friend and, of greater importance to members of this committee, president of the West Coast Shipbuilding Association and vice president and general manager of the Seattle Division of the Todd Pacific Shipyards.

John is here on a vital mission. He is here to alert you to a national security disaster in the making unless we in the Congress, working in concert with the administration, shipyards and shipyard workers, act soon. That disaster is the collapse of the shipbuilding industry on the west coast.

John will provide the history, facts, and bleak outlook if nothing is done. I should like to emphasize two of his points before he appears.

First, it is the law of the land and I quote:

> The Navy shall have constructed on the Pacific coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of the national defense.

The role of the President here is spelled out clearly, but I am fearful that either the administration does not fully appreciate the crippled state of the shipbuilding industry on the Pacific coast or simply does not feel its capacity to build naval surface ships there is necessary.

Evidence that the latter explanation is the correct one can be found in today's testimony by Assistant Secretary Pyatt. He states:

"While we," referring to the Navy, "speak of adequate shipyard capacity, we mean repair capability."

I should like to remind the Assistant Secretary that the Navy did not make the law of the land, Congress did, and we here in Congress, or actually those who were here in 1956, wrote the law to say that ship construction, not ship repair, shall be the means by which shipyard facilities are to be maintained.

Regardless of which misconception is cause for the Navy's shortsightedness, it is now apparent that the Congress will assist the administration in focusing on the problem and in appreciating section 7302 of title 10.

The National Shipbuilding Industrial Base Act of 1985 of which I am now a cosponsor is an appropriate first step in this effort.

My second point is that need for a new policy is urgent. The crisis is immediate. There may not be an opportunity to save an adequate Pacific coast shipbuilding industry tomorrow.

As Mr. Gilbride will point out, Navy contracts now are the source of 90 percent of the total work in private yards and no one anticipates major or immediate change in this situation.

In addition, the future will see a drop off of Navy work as we complete construction of the 600-ship fleet. As a result of these developments, it is forecast that our shipbuilding capacity will suffer a 30 percent drop by 1989. We cannot afford to have the west coast shipbuilders absorb an unwise and unfair proportion of this decline. No less than the Nation's ability to mobilize in the event of an emergency is at stake.

With those words, Mr. Chairman, I express my thanks to you for allowing me to appear.

Senator COHEN. Thank you. Mr. Gilbride, we welcome you.

STATEMENT OF JOHN T. GILBRIDE, JR., PRESIDENT, WEST COAST SHIPBUILDING ASSOCIATION

Mr. GILBRIDE. Thank you, Mr. Chairman.

My name is John Gilbride. I am president of the Western Shipbuilding Association and vice president and general manager of the Seattle Division of Todd Pacific Shipyards.

Western Shipbuilding Association consists of 170 member firms and is comprised of shipbuilding, conversion and ship repair yards, labor organizations, suppliers, subcontractors, and many other related segments serving the maritime industry of the Pacific coast including the State of Hawaii.

The shipyards I represent employ 1,000 people in the Puget Sound area, although less than 3 years ago our employment level exceeded 4,000. In fact, in the entire Seattle area 3 years ago we had 12,000 shipyard workers. Now we have less than 3,000.

I appreciate this opportunity to testify on the status and prospects of west coast shipbuilding and to present the reasons of the Western Shipbuilding Association for supporting Senate bill 535, the National Shipbuilding Industrial Mobilization Base Act of 1985.

With your permission, Mr. Chairman, I will summarize my prepared statement by underlining the principal points. I request, however, that the subcommittee accept my prepared statement as part of the record.

Senator COHEN. It will be included in full, Mr. Gilbride.

Mr. GILBRIDE. Mr. Chairman, during World War II private shipbuilders on the Pacific coast delivered 10.2 million displacement tons of newly constructed vessels. That tonnage compared with 7.7 and 3.9 million displacement tons on the east and gulf coasts.

This extraordinary war effort was brought about by a conflict of long duration, but also by the dictates of the simple fact of geography that the Pacific Ocean accounts for 62 percent of the ocean's surface of the world.

Today our entire shipbuilding capacity is in the hands of the private sector. These shipyards employ 150,000 individuals. We have 23 major yards and 85 or so smaller yards. Ninety percent of the employees are with the 23 larger yards comprising the national shipbuilding industrial mobilization base.

Of these yards capable of building vessels in excess of 475 feet, three are in the Great Lakes area, seven are on the east coast, eight are on the gulf coast and four are on the west coast. At the present time it appears our shipyards are logically geographically dispersed in a most prudent manner essential for national defense.

Unfortunately, unless immediate congressional action is taken, this is a short-term illusion. By 1989, it is estimated that our national shipbuilding capacity will decline by more than 30 percent. Roughly 60,000 personnel will join the ranks of the unemployed.

New ship orders will be primarily for the U.S. Navy and amount to approximately 20 vessels per year. Unless we adopt a national maritime policy similar to other major nations of the world, there will be no large commercial vessels under construction in the United States.

It has been stated eloquently before the reasons we will not have commercial work, so I will not get into that.

I would like to state our problem, of course, is not only high wages, but we are competing with Government-owned subsidized shipyards. The facts are that we cannot meet the prices of our foreign competition in the commercial world.

The story is that shipyards that do not do work with the U.S. Navy simply are not going to survive. They will be the principal customers for all shipyards in the United States. The current stated policy of the U.S. Navy is to procure vessels wherever the initial price to the taxpayer is lowest.

No consideration is given to the sound and prudent policies for both defense and long-term economic reasons of geographic dispersal. I find it mystifying and ironic that this policy is being invoked at a time when the Navy is correctly dispersing its fleet around the Nation relative to vessel home ports to avoid the danger of Pearl Harbor-type choke points.

Obviously, shipyards that build vessels are the most capable and cost effective to repair and convert similar classes of warships. There are no submarines or aircraft carriers built on the west coast. Neither are the cruisers or destroyers and soon no frigates.

The west coast must retain its existing capability to build, convert and repair surface combatants. Consider time and distance alone. It normally takes over 2 weeks for a vessel to transit from the east coast or gulf coast to the Pacific Ocean.

If access to the Panama Canal was denied, this transit time would exceed 5 weeks.

There has been a lot of discussion about the high cost on the west coast, particularly wage rates. No one denies the need to maintain public shipyards on the Pacific coast and in the State of Hawaii. Yet, the direct labor rate differential for west coast both public and private yards, and east and gulf coast public and private yards is generally the same, about $3 per hour.

Recently the wage gap has narrowed. If we receive new construction support, it should continue to narrow in the future. An October 1984 Maritime Administration report estimated west coast shipbuilding companies to be 4 percent, 6 percent higher than the east coast and 9.2 percent higher than in the gulf coast.

We are not denying that ships currently are slightly more expensive to build on the west coast, but is this difference so great that those who govern our Nation would ever consider abandoning its private shipyard capacities to build and support the Pacific Fleet?

We are not asking for a great percentage of the portion of the total Navy construction budget.

We are asking that defense mobilization and long-range economic factors be considered. If these are considered, we will get a reasonable amount of work and prove that we are competitive.

During fiscal year 1984, 29 percent of Navy overhaul and repair work was allocated to the west coast, but only 4 percent of total Navy new construction. I believe that percentage in fiscal 1985 will be zero.

We survived fiscal 1984 and 1985, or at least some of us did, not because we received a minimum amount of naval repair work, but strictly because there was sufficient ongoing new construction awarded in prior years to keep our workforce in existence, even though at much reduced levels.

I have heard some in the Navy say repair and overhaul work will sustain the west coast shipyard capacity for Pacific Fleet support. To understand the folly of believing such work can maintain an already deficient mobilization base in the west, I ask the subcommittee to consider this simple fact.

The total remaining amount of repair and overhaul work for which private west coast firms can compete through fiscal year 1986 involves work on only 14 ships to be divided competitively among more than 10 potential bidders.

As an illustration of how insufficient this workload is, if the shipyard I manage were to win half of these contracts, an unlikely event to say the least, it would represent less than 15 percent of our capacity for ship work.

Furthermore, the type of work involved is not of a highly technical nature compared to warship construction and, therefore, not particularly useful in terms of maintaining the skills that would be needed to build complex combatants or to repair those damaged in battle.

Few recognize the cost, time and complexity in building and maintaining a full-service shipyard that can support the Navy with the necessary surge capability in time of crisis.

Believing that the letter of the law would be followed, that is, that the Navy would build vessels necessary to maintain naval

shipyard facilities on the Pacific coast, my own small shipyard has invested extensively in new construction/repair-oriented human and facility resources.

In the past 5 years my Seattle division invested over $45 million in capital improvements including cranes, drydocks, numerically controlled equipment, CAD/CAM systems and support computers. My counterpart here today invested over $60 million.

Building, converting and repairing naval combatants also requires extensive human skills. We estimate it takes 5 years and $25,000 to develop a skilled shipbuilder. Todd-Seattle has experienced the difficulty of building a highly trained workforce.

Although we had a number of naval repair and overhaul projects between 1970 and 1976, we delivered no newly constructed vessels.

Between 1976 and 1982, with the commencement of the 13-ship FFG program, we were tasked to build a new construction workforce from 700 employees to over 4,000. We interviewed, screened, tested and often retested 23,000 candidates to select the 3,300 additional Todd-Seattle personnel that we desired.

In that 6-year period, we expended 2 million manhours or the equivalent of $40 million in developmental and skill enhancement programs. It is no easy task to develop and sustain a U.S. Navy surface combatant resource. I have no doubt that all major west coast shipyards invested similarly in people and facilities. It would be a travesty to allow these national resources to erode and die.

Apart from the fact that common sense dictates that the U.S. Navy build vessels on the west coast, the fact remains that it is against the law not to. Today, although our Navy justifiably plans for a contingency of a prolonged conflict in which naval forces are engaged globally, our Navy does not plan, or at least does not act effectively, to maintain the industrial shipbuilding base needed to support its own predicted mobilization requirements in the Pacific.

To preclude exactly the situation which has now developed, Congress after World War I enacted, and after World War II and the Korean conflict reenacted, the present requirement of law that the Navy ensure that sufficient naval vessels are constructed on the west coast to guarantee that Pacific Ocean mobilization needs will be met in any future conflict.

Yet again, as time has passed and the lessons of history have grown dim in the minds of those who were not actual participants and did not have those lessons imprinted by the stamp of their own experience, we now see the sound policy adopted by a Congress then recently familiar with the facts of mobilization requirements, eroded, circumvented, and now ignored.

The Navy has conducted two major shipyard studies to analyze the capability of our industry to meet national mobilization objectives:

One, the shipyard mobilization base study, completed in February of 1984, found serious mobilization deficiencies on the west coast even while assuming that substantial new ship construction would continue on the west coast.

Two, the national defense shipyard study, completed in February of this year, concluded that even the present workforce, which, as I have testified, will shrink dramatically over the next 5 years, was insufficient to sustain mobilization requirements on the west coast.

Mr. Chairman, if we expect west coast shipbuilders to construct vessels after mobilization and if we expect west coast shipbuilders to repair battle damaged ships that require new construction-oriented skills and equipment, then the Navy must, as the law already wisely requires, build ships on the west coast in peacetime to maintain the capabilities that the Nation and the Navy would require in war.

For these reasons, I urge this subcommittee to favorably report Senate bill 535 and to continue to work for early passage of this essential legislation.

I also respectfully recommend that the subcommittee consider drafting legislation, or perhaps amending S. 535, to require specifically that a portion of new naval construction be allocated for competitive bidding on the west coast. In my judgment, that step must be taken immediately because if the law continued to be disregarded, we may never build a major vessel on the west coast again.

Thank you very much, Mr. Chairman. I will be pleased to try to answer any questions that you or other members of the subcommittee might have.

And, thank you again for your attention.

[The prepared statement of Mr. Gilbride follows:]

PREPARED STATEMENT OF JOHN T. GILBRIDE, JR., PRESIDENT, WESTERN SHIPBUILDING ASSOCIATION AND VICE PRESIDENT AND GENERAL MANAGER OF THE SEATTLE DIVISION OF TODD PACIFIC SHIPYARDS

Mr. Chairman and Distinguished Members of the Subcommittee, my name is John T. Gilbride, Jr. I am Vice President and General Manager of the Seattle, Washington, Division of Todd Pacific Shipyards Corporation, and the President of the Western Shipbuilding Association. The shipyard that I represent employs 1,000 people in the Puget Sound Area, although, less than three years ago our employment level exceeded 4,000. The Western Shipbuilding Association consists of 170 member firms which is comprised of shipbuilding, conversion and ship repair yards, labor organizations, suppliers, subcontractors and many other related segments serving the maritime industries of the Pacific Coast, including the state of Hawaii.

I sincerely appreciate this opportunity to testify on the status and prospects of West Coast shipbuilding and to present the reasons of the Western Shipbuilding Association for supporting Senate Bill 535, the "National Shipbuilding Industrial Mobilization Base Act of 1985." In our opinion, it is essential that the policy of building naval vessels on the Pacific Coast, as set forth in Section 7302 of Title 10, United States Code, be reaffirmed now, and that, as expressed in the text of Senate Bill 535, this policy be implemented by commencing at an early date construction of the number of combatant vessels determined necessary by the President of the United States to maintain shipyard facilities on our Pacific Coast.

With your permission, Mr. Chairman, I will summarize my prepared statement by outlining the principal points in it. I request, however, that the Subcommittee accept the prepared statement as a part of the record.

I point out further, as a preliminary matter, that I am appearing today principally as the President of the Western Shipbuilding Association. I will, however, be drawing on my experiences as the General Manager of one of the 5 major shipyards on the West Coast that are a part of the 23 active major shipyard national shipbuilding base.

Mr. Chairman, during World War II, more precisely from 1939 to 1945, private shipbuilders on the Pacific Coast delivered 10.2 million displacement tons of newly constructed ships. That tonnage compared with 7.7 and 3.9 million displacement tons, respectively, on the East and Gulf Coasts. In the Seattle area alone, the Seattle-Tacoma Division of Todd Shipyards produced 5 cargo ships, 2 troop carriers, 56 small aircraft carriers referred to as "baby flat-tops" and 45 destroyers. This yard, alone, employed 57,000 people. This compares to today's total West Coast private shipyard employment level of less than 20,000 individuals. The extraordinary World War II ship deliveries from all yards on the West Coast were necessitated by a

global conflict of prolonged duration and by the dictates of the simple fact of geography that the Pacific Ocean accounts for 62 percent of the ocean surface of the world.

Today our entire shipbuilding capability is in the hands of the private sector. These shipyards employ about 150,000 individuals. We have 23 major yards and 85 or so smaller yards. Ninety percent of the employees are with the 23 larger yards comprising the National Shipbuilding Industrial Mobilization Base. Of these yards capable of building vessels in excess of 475 feet, 3 are in the Great Lakes area, 7 are on the East Coast, 8 are on the Gulf Coast and 5 are on the West Coast. At the present time it appears that our shipyards are logically geographically dispersed in a most prudent manner essential for national defense. Unfortunately, unless immediate congressional action is taken, this is a short-term illusion.

By 1989, it is estimated that our national shipbuilding capacity will decline by more than 30 percent. Roughly 50,000 shipyard personnel will join the ranks of the unemployed. New ship orders will be primarily for the United States Navy and will amount to approximately 20 vessels per year. Unless we adopt a National Maritime Policy that is similar to all other major nations of the world, there will be virtually no large commercial vessels under construction in the United States.

In the past, two-thirds of our national shipbuilding resources were dedicated to commercial construction. Over 5,000 merchant ships were built during the World War II years referred to previously. As early as ten years ago, 96 commercial vessels were under construction. Today there are 5. The incentive to build ships in this country, namely construction differential funds, no longer exists. A vessel built in a government subsidized, low wage-structured, foreign yard costs an owner roughly one-half of a comparable ship constructed in the United States. Consequently, no commercial new construction orders are anticipated in 1985 or in 1986. Without White House intervention, which is indeed unlikely, this dearth of commercial building activity will, unfortunately, continue in the years ahead.

In 1974, Navy work in private shipyards amounted to 58 percent. Today it is 87 percent. In March of this year, the United States Navy, rightfully building to a 600 ship level, was building or converting 115 ships in private yards in this country—including 95 new ships, 19 conversions and 1 battleship reactivation. This activity involves 18 of the 23 major shipyards that make up the Defense Mobilization Base. It is projected that to sustain this 600 ship navy when that level is achieved, after 1989, only 18 to 21 vessels per year will be built. Shipyards that do not build ships for the U.S. Navy will probably not survive. Major shipyards may shrink in number to less than a dozen and if the current climate of no recognition for the need of geographical dispersal prevails, there may be no major shipyards capable of building major combatants on the West Coast. This is in spite of the fact that, as I understand it, 9 out of our 15 carrier battle groups will be deployed in the Pacific Ocean.

The current stated policy of the United States Navy is to procure vessels wherever the initial price to the taxpayer is the lowest. No consideration is given to the sound and prudent policy for both defense and long-term economic reasons of geographical dispersal. I find it mystifying and ironic that this policy is being invoked at a time when the Navy is correctly dispersing its fleet around the nation relative to vessel homeports to avoid the danger of "Pearl Harbor" type choke points.

Obviously, shipyards that build vessels are the most capable and cost effective to repair and convert similar classes of war ships. There are no submarines or aircraft carriers built on the West Coast. Neither are there cruisers nor destroyers and soon no frigates. The West Coast must retain its existing capability to build, convert and repair surface combatants. Consider time and distance alone. It takes over two weeks for a vessel to transit from the East or Gulf Coast to the Pacific Ocean. If access to the Panama Canal was denied for whatever reason, this transit time would exceed five weeks.

There has been much discussion about high costs on the West Coast, particularly wage rates. No one denies the need to maintain public shipyards on the Pacific Coast and in Hawaii, yet the direct labor rate differential for both West Coast public and private yards and East/Gulf Coast public and private yards is generally the same—about $3 per hour. Recently, the wage gap has narrowed and, if we receive new construction support, it should continue to narrow in the future. An October, 1984, Maritime Administration report estimated West Coast shipbuilding costs to be 4.6 percent higher than in the East and 9.2 percent higher than in the Gulf. A more recent study conducted by one of the firms represented by the Western Shipbuilding Association has indicated that, currently, total procurement costs for like vessels built on the East Coast versus the West Coast would be less than 4 percent. We are not denying that ships are slightly more expensive to build on the West Coast, but is this difference so great that those who govern our nation would ever

consider abandoning its private shipyard capability to build and support the Pacific Fleet?

We are not asking for a great percentage or proportion of the total Navy new construction budget. We are asking that defense, mobilization and long range economic factors be considered. If these are considered, we will get a reasonable amount of work and prove that we are competitive. During Fiscal Year 1984, 29 percent of Navy overhaul and repair work was allocated to the West Coast, and only 4 percent of total Navy new construction. Mr. Chairman, we survived Fiscal Year 1984—or at least some of us did—not because we received 29 percent of Navy repair work, but strictly because there was sufficient on-going new construction, awarded in prior years, to keep our work forces in existence even though at much reduced levels.

I have heard that some in the Navy believe that repair and overhaul work will sustain the West Coast private shipyards' capability for Pacific Fleet support. To understand the absolute folly of believing that such work can maintain an already deficient mobilization base in the West, I ask the Subcommittee to consider this simple fact. The total remaining amount of repair and overhaul work for which private West Coast firms can compete through Fiscal Year 1986 involves work on only 14 ships to be divided competitively among more than 10 potential bidders. As an illustration of how insufficient this workload is, if the shipyard that I manage were to win half of these contracts, an unlikely event to say the least, it would represent less than 15 percent of our capacity for shipwork. Furthermore, the type of work involved is not of a highly technical nature, compared to warship construction and, therefore, not particularly useful in terms of maintaining the skills that would be needed to build complex combatant ships or to repair those damaged in battle.

Few recognize the cost, time, complexity and challenge in building and maintaining a full service shipyard that can support the Navy with the necessary surge capability in times of crisis. Believing that the letter of the law would be followed—that is that the Navy would build the vessels necessary to maintain shipyard facilities on the Pacific Coast—my own relatively small 46-acre shipyard has invested extensively in new construction/repair oriented human and facility resources. In the past five years, we have spent over $45 million in capital improvements, including cranes, drydocks, numerically controlled equipment, CAD/CAM systems and support computers.

Building, converting and repairing naval combatants requires extensive human skills. We estimate that it takes 5 years and $25,000 to develop a skilled shipbuilder. Todd-Seattle has experienced the challenge and difficulty of recently building a highly trained work force. Although we had a number of Navy repair and overhaul projects between 1970 and 1976, we delivered no newly constructed vessels. Between 1976 and 1982, with the commencement of the 13 ship FFG Program, we were tasked to build a new construction work force from 700 employees to over 4,000. We interviewed, screened, tested and often retested 23,000 candidates to select the 3,300 additional Todd-Seattle personnel that we desired. In that six year period, we expended 2,000,000 man-hours or the equivalent of $40,000,000 in developmental and skill enhancement programs. It is no easy task to develop and sustain a U.S. Navy surface combatant resource. I have no doubt that all major West Coast shipyards invested similarly in people and facilities. It would be a travesty to allow these national resources to erode and die.

Apart from the fact that common sense dictates that the U.S. Navy build vessels on the West Coast, the fact remains that it is against the law not to. Today, although our Navy justifiably plans for a contingency of a prolonged conflict in which naval forces are engaged globally, our Navy does not plan, or at least does not act effectively, to maintain the industrial shipbuilding base needed to support its own predicted mobilization requirements in the Pacific.

To preclude exactly the situation which has now developed, Congress after World War I enacted, and after World War II and the Korean conflict reenacted, the present requirement of law that the Navy ensure that sufficient naval vessels are constructed on the West Coast to guarantee that Pacific Ocean mobilization needs will be met in any future conflict. Yet again, as time has passed and the lessons of history have grown dim in the minds of those who were not actual participants and did not have those lessons imprinted by the stamp of their own experience, we now see the sound policy—adopted by a Congress then recently familiar with the facts of mobilization requirements—eroded, circumvented and now ignored.

The Navy has conducted two major shipyard studies to analyze the capability of our industry to meet national mobilization objectives:

- The Shipyard Mobilization Base Study, completed in February of 1984, found serious mobilization deficiencies on the West Coast even while assuming that substantial new ship construction would continue on the West Coast.

The National Defense Shipyard Study, completed in February of this year, concluded that even the present work force, which as I have testified, will shrink dramatically over the next five years, was insufficient to sustain mobilization requirements on the West Coast.

Mr. Chairman, if we expect West Coast shipbuilders to construct vessels after mobilization and, if we expect West Coast shipbuilders to repair battle damaged ships that require new construction oriented skills and equipment, then the Navy must, as the law already wisely requires, build ships on the West Coast in peacetime to maintain the capabilities that the nation and the Navy would require in war.

For these reasons, I urge this Subcommittee to favorably report Senate Bill 535 and to continue to work for early passage of this essential legislation.

I also respectfully recommend that the Subcommittee consider drafting legislation, or perhaps amending S. 535, to require specifically that a portion of new naval construction be allocated for competitive bidding on the West Coast. In my judgment, that step must be taken immediately because if the law continues to be disregarded, we may never build a major vessel on the West Coast again.

Thank you very much, Mr. Chairman. I will be pleased to try to answer any questions that you or other members of the Subcommittee might have.

And, thank you again for your attention.

Senator COHEN. Thank you very much, Mr. Gilbride.

It seems to me there are two basic issues involved in this hearing today.

No. 1, is the President in violation of existing law?

And, No. 2, the policy issue, should ships be allocated on a geographical distribution basis instead of competitive efficiency?

I suspect a subcategory of that is, Should the Navy place higher priority on ability to begin building ships after mobilization, after a war begins, than it places on getting ships at the lowest price before conflict erupts?

To go back to the first issue, the legal question, as a result of its being raised, I asked the American Law Division of the Congressional Research Service to give us an opinion which I am going to read into the record.

CRS believes the Navy is in compliance of the law. Specifically the CRS law specialist has advised the committee that "neither the terms of the national statute nor the legislative history indicate it imposes a mandatory duty on the President or the Navy to undertake construction of naval vessels on the Pacific coast.

"Construction is to take place only if the President determines it is to be 'necessary' in order to maintain shipyard facilities on the Pacific coast necessary and adequate to meet the requirements of national defense. It is this finding that triggered the Navy Department construction.

"Any duty the Navy Department has, given the statute to construct vessels on the Pacific coast, would seem to be contingent on the President making the described finding. Legislative history does not indicate the statute was intended to impose any mandate that any number of authorized vessels were to be constructed on the Pacific coast or that the President was required to implement a massive west coast shipbuilding program."

CRS is not an adjunct of the Navy or executive branch, but something that we refer to for analysis of the kinds of issues raised today.

I will submit that entire opinion for the record so that the committee members will have an opportunity to review it and make your own determination.

[Statement from Congressional Research Service follows:]

CONGRESSIONAL RESEARCH SERVICE,
THE LIBRARY OF CONGRESS,
October 10, 1985.

To: Senate Armed Services Committee.
From: American Law Division.
Subject: Duty to Construct Naval Vessels on Pacific Coast Under 10 U.S.C. 7302.

This memorandum analyzes the nature of the duty to construct naval vessels on the Pacific Coast described at 10 U.S.C. 7302.

The statute provides:

The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

The provision originated in a 1938 law that expanded the composition of the naval forces. 52 State. 401, 403 (1938). It authorized the construction of naval vessels, naval aircraft and experimental aircraft. Section 11 of the bill, which became 10 U.S.C. 7302, was added by the House Committee on Naval Affairs and remained unchanged throughout congressional consideration of the bill. See, H. Rept. No. 1899, 75th Cong., 3d Sess. 2 (1938); S. Rept. No. 1611, 75th Cong., 3d Sess. 19 (1938). The House Report provides what little explanation there appears to exist in the public record as to the intent of the provision:

National naval defense is a chain forged from three links—the Navy, the merchant marine, and the ship construction and repair facilities necessary to keep both the Navy and the merchant marine at the highest point of efficiency in any locality and under any circumstances.

Although prior to and during the World War shipbuilding was a major industry on the Pacific coast, it has practically ceased to exist and, except for limited activity in the two navy yards in that area, shipbuilding and ship construction would have become a lost art.

In the event of a major naval engagement in the Pacific its casualties, unless very limited in number, would be repaired only after the long and hazardous voyage to the more highly organized shipyards on the Atlantic coast. The resulting delay might spell disaster. It might be impossible for a seriously crippled major vessel to pass through the Panama Canal, and the trip around Cape Horn would be out of the question.

The provisions of the committee amendment contained in section 11 may lead to the restoration of these facilities, old shipyards may be rejuvenated, and the necessary trained personnel may be reorganized, all of which are essential in our scheme of national defense.

The past 20 years' experience has demonstrated that the shipbuilding industry on the Pacific coast has not kept abreast with the needs of the Navy, but the assistance made possible by this amendment may revitalize the shipbuilding yards and may materially help to secure adequate shipbuilding and ship-repair facilities for any emergency which may arise.

The following letter from the Secretary of the Navy addressed to the chairman of the Committee on Naval Affairs of the House of Representatives sets forth the views and recommendations of the Navy Department on the bill and is hereby made a part of this report

H. Rept. No. 1899 at 24; See also, S. Rept. No. 1611 at 19-20.

Debate on the bill was lengthy but there appears to have been no discussion of section 11. Concern was expressed over the danger of a Japanese attack in the Pacific and the adequacy of Pacific defenses. See, 83 Cong. Rec. 3417, 3495 (1938). The Navy had also earlier stated in hearings on the proposal that none of the ships were to be built on the Pacific coast. 83 Cong. Rec. 3343 (remarks of Rep. Maas). Thus, the provision may have been included in the bill in response to the Navy position as well as to facilitate the restoration of the Pacific coast shipbuilding industry, as stated in the committee reports.

Neither the terms of the statute nor its legislative history, however, indicate that it imposes a mandatory duty on the President or the Navy to undertake construction of naval vessels on the Pacific coast. The construction is to take place only if the President determines it to be "necessary in order to maintain shipyard facilities upon the Pacific coast necessary and adequate to meet the requirements of national defense." It is this finding that triggers the Navy Department construction. Any duty the Navy Department is given under the statute to construct vessels on the Pacific coast would seem to be contingent on the President making the described finding. The legislative history of the provision does not indicate that the statute was intended to impose any mandate that a particular number of the authorized

vessels were to be constructed on the Pacific coast or that the President was required to implement a particular Pacific coast shipbuilding program.

An additional question raised is whether the term "construct" in the statute embraces repairs and maintenance. The focus of the 1938 statute was construction of additional vessels and aircraft to increase the composition of the naval forces. Construction and repair and alteration have traditionally been viewed as separate activities. Separate appropriation accounts were maintained for those activities at the time the statute was enacted, a practice that still exists. See, 52 Stat. 223, 231, 242 (1938); S. Rept. No. 98-636, 98th Cong., 2d Sess. 41, 106 (1984)(Department of Defense Appropriation bill, 1985). Section 12 of the 1938 statute, immediately following the provision in question, refers to the application of a prior law on government contracts to the "construction, alteration, furnishing, or equipping of any naval vessel authorized by this Act." 52 Stat. 403. The activities of construction and alteration are thus distinguished. The Attorney General has also held that a provision of another law cross-referenced in the 1938 statute that provided that "no contract shall be made by the Secretary of the Navy for the construction and/or manufacture of any complete naval vessel or aircraft, or any portion thereof . . ." unless the contractor makes certain commitments applied only to contracts for new construction and not to contracts for the furnishing of replacements needed in making repairs to existing vessels. 37 Op. A. G. 487 (1934). See also, 19 Comp. Gen. 636, 638 (1940) (Comptroller General distinguishes between accounts for construction for naval vessels and accounts for repair and maintenance).

Thus, the provision now contained at 10 U.S.C. 7302 would seem to be confined to construction of vessels rather than their repair and maintenance. Given the discretionary nature of the duty described in the provision, however, the practical affect of such a limitation would not seem significant. Other authority undoubtedly exists to repair and maintain vessels on the Pacific coast and the fact that 10 U.S.C. 7302 may be confined to new construction would not preclude the exercise of that authority with respect to vessels on the Pacific coast.

Finally, the foregoing discussion is limited to the impact of the provision contained at 10 U.S.C. 7302. Subsequently enacted statutes, including authorization and appropriation laws, may have imposed duties on the Navy Department that more clearly evince an intent that a certain amount of construction take place on the Pacific coast or that particular vessels be constructed at that location.

RICHARD EHLKE,
Specialist in American Public Law.

Senator COHEN. With respect to the policy issue, I invited a number of the east and gulf coast shipbuilders to come to this hearing today and they all declined to appear. NASCO, which is located in San Diego, and Lockheed Shipbuilding, also on the west coast, also declined to appear.

It seemed to me there is a suggestion that perhaps this is more for Todd than for the other shipbuilding operators on the west coast.

I was wondering if you are here more for Todd than for the other shipbuilding operators on the west coast?

Mr. GILBRIDE. I am here with two hats, as spokesman for the Western Shipbuilding Association of which I am president and also for Todd-Seattle of which I am general manager.

I cannot comment on why NASCO or Lockheed did not appear. I do know that in the case of our principal competitor, Lockheed, the recently awarded jobs, which was referred to earlier, two LCAC's, will not be built in Seattle. They will be built in Gulfport, MS.

NASCO will have to speak for themselves. I believe all shipyards on the west coast are probably hurting. There are not too many of us left.

Senator COHEN. Earlier witnesses said there is no need to maintain a mobilization base for the specific purpose of beginning construction of additional surface combatants after a major crisis and war begins.

Dean Flipse pointed out during World War II not a single major combatant whose keel was not already laid prior to Pearl Harbor ever saw service during World War II.

At the very end of your testimony you indicated a policy should be required to ensure construction of new ships after mobilization. The Navy says we do not anticipate constructing new ships after mobilization because we don't think there will be time enough to get them into the service. That is why they have come to the conclusion that at best they would require repair and maintenance and not any more shipbuilding.

Admiral Hayward, former CNO, testified before this committee that a major conflict is going to be a come-as-you-are war, that you go to war with the assets you have, and do not plan on getting any more to get into that operation.

Mr. GILBRIDE. I think the question was do we need new construction if the war starts? Will we be building ships as a result of the war?

I think the key point is what happens when you have new construction and you have a base of manpower. You have 2,000 or 3,000 people. When the emergency repairs come in, you draw from those people to get the repair jobs done.

We have seen that in our SLEP Program when we had to get some vessels for the Navy, and sometimes for commercial, out in a hurry, we would allocate 500 or 600 people overnight to get the job done.

If war happens, you will have to have a base of manpower to draw upon to repair battle damaged ships first. If you do not have construction on the west coast, you will not have a base. You cannot put 600 or 700 people on repair jobs or emergency jobs when you have nothing to draw from.

Senator COHEN. Are the skills that are needed for repair and maintenance different from those that you need to construct any ships?

Mr. GILBRIDE. They are primarily the same except for the fact that you are dealing with combatant systems specialists, test and trial specialists, specialized welding. As I think the people from Northwest testified, if we go down to zero, you cannot repair ships, you cannot maintain construction without a base of manpower, and you cannot maintain your equipment or people.

Senator COHEN. You mentioned before in times of emergency you compress the time necessary to get the ships repaired and back to the fleet.

In your experience as a shipbuilder and in dealing with components, how much compression would you have in time of crisis?

Mr. GILBRIDE. Normally in new construction we operate on a single ship basis. The constraint often is material flow. If material is not available, we run second and third shifts. You could probably accelerate your schedules by 50 percent, assuming you get the people to work those shifts.

Senator COHEN. We are not looking at an increased defense budget in the future, but rather a decreased defense budget or at least a flattening out of the increase in the future.

The President, as you know, would like to see at least 3-percent real growth, perhaps even higher if he can get it. The likelihood is

that he will get anywhere from zero increase to zero plus inflation. That seems to be where the battle will be fought in the next several years.

If you read today's Washington Post, you will see that Secretary Weinberger is raising all sorts of flags about Gramm-Rudman because it will in effect cause fairly substantial reductions in defense spending in the future.

In view of that particular type of climate, how are we to justify saying that we have to put ships in yards that are going to cost the taxpayer more money?

In the case of a billion-dollar ship, I assume that the 4-percent differential you are talking about is about $40 million.

How do we justify spending an extra $40 million on a ship?

Mr. GILBRIDE. I will put it this way. I think the costs on the west coast are going down. I recognize that is a parochial answer. We are making tremendous strides in labor negotiations. We are in the middle of them right now. There is a very real possibility, and I recognize, Senator, you are from Maine, that the wage structures will become closer than they are now.

Senator COHEN. I hope you do not follow the experience of what we have just been through in Maine.

Mr. GILBRIDE. We have had those experiences in the past. I think you have to balance your defense requirements with your economic requirements. I cannot judge whether that $40 million is worth having a capability on the west coast.

I personally think it is money well spent. I also think in the long-range picture if all your shipbuilding is concentrated in one area of the country, you may have some local issues that cause the ship prices to raise, you may have strikes, you may have hurricanes, damages such as that.

You have to do something to spread things around so that you are covered. It is an insurance policy.

Senator COHEN. The U.S. aviation industry depends a great deal on its foreign sales. I think we can generally say that our ships are a superior product.

In your judgment, what are the prospects for foreign sales of ships?

Mr. GILBRIDE. We currently have several prospects for foreign sales. Again, we have lots of competitors in the room. I do believe that there is potential for our yards on the west coast—I am speaking now just for the Todd yards—to sell surface combatants if we get our Government's permission, although these are very long-range prospects.

Senator COHEN. What are the principal obstacles?

Mr. GILBRIDE. Government policy.

Senator COHEN. Senator Exon?

Senator EXON. Mr. Chairman, thank you very much.

Mr. Gilbride, so that I can try to get a handle on this, I think it is a very important and very serious consideration that we have for our national security. I suspect that you might agree that if we should have an outbreak of major hostilities, the first concern would have to be to get the ships that are damaged in combat back out in the operating fleet as quickly as possible.

That fact alone gives me pause with regard to whether we should just always give ship contracts to the lowest bidder because we do have other considerations, which I think is the part of your testimony that I was most impressed with.

But let me review this a little bit so that I can try to understand what is going on. The staff reports that have been available to those of us on this side of the table state, and I am going to quote:

> Privately, Todd shipyard managers allege that Secretary Lehman promised them a series of production contracts if Todd would make certain huge capital investments to improve their yards.
>
> Todd claims that they have made the improvements and that Secretary Lehman reneged on his promise.

Is that true?

Mr. GILBRIDE. Sir, I have no knowledge of that. I only speak for myself. I have never spoken to Secretary Lehman about anything like that. It was stated, I think publicly, that the yards, if they are going to survive, have to be more productive. I think some of us took this to mean that to survive, it will be a smaller price, so you had better invest your money in people and facilities.

I am not going to say Secretary Lehman promised me if we spent $45 million in Seattle, that we would get some work.

Senator EXON. As far as you are concerned, that is not an accurate assessment of the situation?

Mr. GILBRIDE. It was not made to me.

Senator EXON. You do represent Todd, do you not?

Mr. GILBRIDE. Yes, sir.

Senator EXON. Are people higher than you in the Todd organization?

Mr. GILBRIDE. Oh, lots. I report to the president.

Senator EXON. You must be conversant with the top corporate management of Todd?

Mr. GILBRIDE. Yes.

Senator EXON. Have you ever heard any of the top management people in Todd make any indication along the lines of the statement I read to you from the staff report?

Mr. GILBRIDE. I think when the decisions were made, I think the upper management thought if we invested in the facilities, we would get new construction because of a lot of things.

We know about this law. The law says to us that they will be building on the west coast. We are on the west coast.

I have not heard anybody say let us invest all this money because Secretary Lehman promised us that if we did this, we would get new work. I have not heard that.

Senator EXON. You have made investments totaling how many millions of dollars?

Mr. GILBRIDE. We spent $45 million in Seattle and I believe over $60 million in Los Angeles. We also spent somewhere in the neighborhood of $25 million in San Francisco.

Senator EXON. In anticipation of further contracts from the Federal Government?

Mr. GILBRIDE. In anticipation of the facts of life, that the market is such if you do not do business with the U.S. Navy, you are not going to survive.

Senator EXON. I am glad to hear that because while Secretary Lehman and I have not always agreed on all issues, when I read that, I said that does not sound like John Lehman to me. I think he is a pretty outspoken individual.

Mr. GILBRIDE. That is for sure.

Senator EXON. That is for sure. I have never heard him do anything like that. I was glad to hear that.

Let me ask one followup question and then I will turn it back to you, Mr. Chairman.

Why is it, in your opinion, that it costs more to build ships and, therefore, I suspect to repair ships, on the west coast than it does in the east and gulf ports?

You stated some of them, which essentially are labor.

Mr. GILBRIDE. Yes, sir.

Senator EXON. I can see and I can understand; and I am very much concerned about the fact that we can build ships cheaper in Singapore than we can in Seattle, WA, but I cannot understand why it costs us more to build ships in Seattle, WA, than it does in Philadelphia, for example.

I assume the wage rates in the United States for this kind of activity are pretty much level.

Is that not the case?

Mr. GILBRIDE. The situation is, and it is a very complex issue, that for a guided-missile frigate that costs $400 million to a taxpayer, our portion is roughly $100 million. Of that $100 million, $50 million, or half, is material and subcontractor services. The rest pertains to manhours.

In our case at the current time our manhours, our direct labor rate, is around $2 or $3 higher than our principal competitor, Bath. Bath is $11.44, we are now $13.50. We have a $2 disadvantage in that portion of your hourly structure.

However, you also have your related costs and overhead. If the yards are fully engaged, your overhead costs become very, very low. Because the west coast does have some advantages, we have lower energy costs, our material costs are about the same. The labor is the principal and great concern to us and we are making strides along those lines.

Senator EXON. We hear about labor a great deal of the time.

Is the fact that labor costs are higher on the west coast all labor's fault, or has management maybe given in to labor out there from time to time, shortsightedly, by thinking if they went ahead at this time they might not have to pay the piper later?

Does management have any responsibility for what appear to be out-of-line labor costs for ship construction on the west coast relative to other sections of the United States?

Mr. GILBRIDE. As I have testified, cost differential is the same in the public and private yards, about $3 an hour. You are meeting a labor market. It costs more to live, unfortunately, in Seattle, WA, than it does in Bath, ME, or Mississippi.

So, the wage structures in the area are higher. Certainly we are all a little bit to blame. As I said, labor and management have gotten together. We recognize there is a smaller pie and labor costs are going to go down.

Senator EXON. Thank you, Mr. Gilbride.

Thank you, Mr. Chairman.

Senator COHEN. Mr. Gilbride, Senator Wilson has a series of questions I will insert for the record if you will respond to them in writing. They basically ask you to respond to Secretary Pyatt's claim that the industry can decline about 80 percent of current capacity in production workers without any problem in maintaining an adequate mobilization capability.

I am going to rush along because Senator McClure is here and there is a vote on the floor.

I thought we would take your testimony, Jim, first and then we will recess so that we can vote. We have two more witnesses coming. I think we will proceed in that fashion.

Thank you very much, Mr. Gilbride.

Senator McClure?

STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

Senator MCCLURE. In the interest of time, I will just ask that my statement be made a part of the record. Rather than delivering my statement and knowing that you have a copy of it, I want to make just a few basic points, if I may, and then respond to your questions.

First, I want to commend my colleague, Senator Symms, for the leadership he has shown in trying to revitalize and redirect procurement practices so that we can have a west coast shipbuilding capability, and I will return to the importance of that in just a moment.

Second, I would request that the subcommittee have a classified closed hearing on mobilization base because I think that is the essential question that we must ask ourselves: Indeed, what is that mobilization base? How important is it and how do we achieve it?

Finally, to respond a little to that last question you asked the previous witness with respect to the labor costs on the west coast—and I think Senator Exon, your questions were right on target—I think one of the troublesome issues is indeed with differing labor markets, differing costs of doing business, differing costs of living in various areas of the country. How can you then compete in an area which has relatively higher costs, and should we, as a matter of fact, require those labor costs to be adjusted or is that impossible?

Finally, if it is not possible to adjust the costs of doing business, do we as taxpayers want to confront the necessity of paying higher basic costs in order to preserve a mobilization base?

That latter point, as far as I am concerned, could not have been highlighted more directly than by Pearl Harbor. If we have again any kind of armed conflict in which the repair of ships becomes essential, it is absolutely necessary to have a west coast shipbuilding capability.

A large part of naval operations is in the Pacific basin. They have been in the past, they will be in the future, and a large part of the repair will necessarily be in the Pacific basin.

I would suggest to you, without reopening the old Panama Canal issue, that the access to the Panama Canal in some circumstances

might be very much constrained aside from the time and the distance and the difficulty of moving disabled or damaged ships to the gulf coast or the east coast for repairs.

I am not holding a brief for higher cost. I want to get those costs down. I have spoken to Secretary Lehman and he very properly says: What do you want us to do, award it to someone who is not the lowest bidder?

Well, maybe. But let us see what we can do to get the costs in line and then determine whether or not the national interest requires some other kind of response in order to maintain that mobilization base.

I am convinced that without the Department of Defense contracting on the west coast, we will not have a west coast shipbuilding industry. If we do not have that industry, I am convinced that our national security will be somewhat impaired.

With that, let me respond to whatever questions you may have.

[The prepared statement of Senator McClure follows:]

PREPARED STATEMENT OF JAMES MCCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman and distinguished members of the subcommittee, I value the occasion of appearing before you today in support of enactment of S. 535, a bill introduced earlier this year by my distinguished colleague and friend, Senator Symms.

In my judgment, Senator Symms deserves high commendation for his work in bringing the decline of the industrial shipbuilding base on the Pacific Coast to the attention of the Senate and the public. It is one of many examples of his superb work in support of a strong national defense and of his strong leadership in the Senate in that regard. He has my thanks both as a colleague and as an American citizen.

Our State, Mr. Chairman, is insular. We have no coastline. But like the distinguished Senator from Nebraska who serves on this subcommittee on sea power, we recognize the crucial importance of the Navy to our security and we pride ourselves in the service our citizens have given in the Navy and the Marine Corps.

And we recognize too, Mr. Chairman, that a Navy is more than a collection of ships and that providing for a Navy is more than buying ships and planes. It is a complex proposition involving many facets. One of those is the ability to mobilize critical industries in time of war or emergency.

Today, you are looking at a critical feature of that ability: the capability to sustain mobilization requirements in the Pacific Ocean.

Mr. Chairman, most of the great naval activities of our country's modern history have occurred in the Pacific, and it is in the Pacific that the Navy has perhaps made its greatest contribution to the security of the entire Nation.

Yet, despite those realities, we are on the brink of seeing our shipbuilding capacity on the West Coast wither away and die.

This is so Mr. Chairman because the wise policies adopted by Congress in law and based on national experience are being ignored as we ever turn our faces from the West and ourselves become ever more insular in believing that the North Atlantic and Western Europe are the world. There is more to the world than that and more to our country.

In seeking to find a solution to the problem already so ably described by my colleagues from Idaho and California, the subcommittee, I respectfully suggest, should bear in mind certain salient principles.

First, the Department of Defense itself and more particularly, the Undersecretary of Defense for Policy are charged with overall responsibility for executing plans and policies which sustain the national industrial mobilization base. Although certain aspects of those responsibilities may be delegated and although the ultimate responsibility rest with us in Congress, it is to the Department of Defense that we must look for action in correcting the problem my friends have described.

The Department cannot be allowed to shirk its duty by passing the buck to the Navy any more than Congress can dodge its obligation to see that national law is obeyed.

While it is true that Defense Directive 5030.9 "Coordination of Shipbuilding, Conversion and Repair for the DoD" delegates the shipbuilding and repair program to the Secretary of the Navy, it cannot and should not be read as allowing DoD to wash its hands of its obligation to oversee and sustain the mobilization base in all areas, including the critical category of shipyards.

For this result, there is an obvious reason. If a single service is allowed unsupervised control of a major component of the overall industrial base, then its own parochial interest may cause it to adopt shortsighted policies.

In this case, I believe that a strong argument can be made that the Navy Department, in its understandable desire to squeeze every possible new ship from constrained shipbuilding appropriations, is not paying sufficient attention to the broader issue of the shipyard base itself. Yet that base, Mr. Chairman, is as critical a component of national defense, perhaps a more critical component, than reaching on schedule the magic number of 600 ships that we also support.

What a shame, and indeed a danger it would be, if we succeeded in squeezing a few more ships out of the budget while eliminating in the process our shipyard capacity on the Pacific Coast.

Guarding against parochial shortsightedness of that nature is precisely the responsibility of the Department of Defense and, in even greater measure, of Congress.

But, Mr. Chairman, Congress has at least attempted to meet its obligation. It has placed on the books a specific law designed to preclude the situation we now face. But the law is being evaded: both by DoD as agent for the President and by the Navy Department which is charged with having "constructed" on the Pacific Coast sufficient vessels to carry out the national policy.

It therefore again falls to Congress, and more particularly to this subcommittee, to fashion a remedy.

In your efforts, I urge you to remember the major role DoD must play in reconciling the competing pressure of more ships and sufficient shipyards. It is unrealistic, and perhaps even unfair, to leave that reconciliation entirely to the Navy Department; and yet it is thus far a reconciliation that DoD has been, it appears, unwilling to undertake.

Mr. Chairman, if the subcommittee does conduct classified hearings on this issue, which I recommend, then I respectfully suggest that the Secretary of Defense or, in his absence, the Undersecretary for Policy be the principle witness since it is at that level that the problem ought to be addressed. And we must not fool ourselves into believing that we have unlimited time in which to resolve the question. Loss of our Pacific Shipyard Capacity is at hand, not remote in time. And once lost, the cost of its reestablishment will be enormous.

In closing, I urge the subcommittee to act favorably and promptly on S. 535. That step alone will do much to overcome the astonishing inertia at DoD in this critical area.

This hearing is a beginning only. Yet it is a commendable start for which you, Mr. Chairman, deserve high praise for your clear willingness to put national considerations ahead of regional perspectives.

This issue, Mr. Chairman, involves a problem which is coming, not going, and I have high confidence in you and the distinguished members of the subcommittee for guidance to the Senate and Congress in our work to achieve a solution which enhances the long-term security of the country.

Thank you very much for undertaking this important work.

Senator COHEN. I do not have any questions, Senator McClure. Thank you for your testimony.

Senator EXON. I do not have any questions.

Thank you for coming over and giving us your input.

Senator MCCLURE. Thank you very much.

I do hope you will schedule a classified hearing on mobilization. I think that is very important.

Thank you very much.

Mr. ALDERMAN. I am Craig Alderman. We were going to do this as a joint panel here, if that is all right with you.

Senator COHEN. I think what we should do—there is a vote on—is vote quickly and come back. Then we can take as long as necessary to complete the hearing.

[Recess.]

Senator COHEN. The subcommittee will come to order.

I apologize. The 10 minutes stretched into 30 minutes, but we have had a series of developments on the floor.

Mr. Alderman, please proceed.

STATEMENT OF CRAIG ALDERMAN, DEPUTY UNDER SECRETARY OF DEFENSE FOR POLICY (ACTING)

Mr. ALDERMAN. I have a prepared statement which has been provided to your staff in advance. I would like, with your permission, to put that in the record.

Senator COHEN. It will be included in full.

Mr. ALDERMAN. I have significantly shortened my short oral statement in the interest of your desire to be out of here in 3 hours. By your leave, I will give a four-sentence summary of it and then turn it over to Mr. Pyatt who will give an equally brief presentation and then we will be free to answer any questions.

President Reagan's objectives for the Nation's maritime program are contained in his program for the development of the maritime strategy which he issued in September 1980. In that program, as it pertains to the issues that we are addressing here this morning, he directed, and I quote, that:

> We ensure that our vital shipbuilding mobilization base is preserved. It is essential that sufficient Naval and commercial shipbuilding be undertaken to maintain the irreplaceable shipbuilding base. Without this nucleus of trained workers and established production facilities, we can never hope to meet any further challenge to our security.

Our current activities in the Department of Defense fully support that objective. We believe, therefore, that we are in full compliance with the policy of section 7302 of title 10 and that, therefore, we affirm legislation is not necessary or indeed desirable.

With that, I conclude my statement. I am available for questions.

I thank you for the opportunity. I can either answer questions now or following Mr. Pyatt's presentation.

[The prepared statement of Mr. Alderman follows:]

PREPARED STATEMENT OF CRAIG ALDERMAN, JR., DEPUTY UNDER SECRETARY OF DEFENSE FOR POLICY

Mr. Chairman and distinguished members of the Committee. I am Craig Alderman, Jr., Deputy Under Secretary of Defense for Policy.

It is my pleasure to appear before this committee to discuss S.535, the National Shipbuilding Industrial Base Act of 1985. That bill reaffirms the policy stated in Section 7302 of Title 10 of the U.S. Code and directs the President to report, within 30 days of enactment of the bill, all actions taken or planned to implement the policy with respect to construction of major surface combatant vessels. A similar bill, H.R. 1662, has been introduced in the House of Representatives.

Section 7302 of Title 10 of the U.S. Code states that the Navy shall construct on the West Coast such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

Department of Defense Directive 5030.9 "Coordination of Shipbuilding, Conversion and Repair for the DoD," provides guidance and assigns responsibilities designed to assure effective and fully coordinated programs for shipbuilding, conversion and repair to satisfy DoD requirements in peacetime, wartime or in a national emergency, to the Secretary of the Navy. It sets forth responsibilities for the Military Services, the Chief of Naval Operations and the Commander of the Naval Ship Systems Command. The latter is responsible for coordination of shipbuilding, conversion and repair for the DoD. In this capacity, he has several responsibilities which are outlined in the DoD directive. Paramount in the list of responsibilities are the follow-

ing: He serves as DoD focal point for providing information on the total capacities and capabilities of the shipbuilding, conversion and repair facilities of Government agencies and of private industry within the U.S.; he assists in perfecting DoD-wide plans for the best utilization of the shipyards of the U.S. under emergency conditions or critical situations, and, he recommends actions that will aid the DoD in working with the shipbuilding industry to increase efficiency and effectiveness. My point here is that the Secretary of Defense has delegated to the Secretary of the Navy the authority to manage the total shipbuilding, conversion and repair program for DoD and has given him specific guidance and direction on how he wants the program managed.

Since 1980, the proposed naval shipbuilding program expansion has been a challenge for both the Navy and shipbuilders. The Navy, as the manager of the program, was challenged to assure that proper quality and cost effective ships were delivered in a timely manner. The shipbuilders were challenged to increase productivity and competiveness through innovative planning, modernization and effective utilization of their assets. The Navy and the industry have responded positively to these challenges; the Navy by providing funds and the industry by initiating programs to improve productivity. Progress in the areas of increased competition and improved Navy contract initiatives have been particularly noteworthy. Industry is effectively executing the expanded naval construction program and responding to an increase in the numbers of complex naval ship overhauls. The industry has clearly demonstrated its capacity to support projected military ship construction and repair programs. In the face of intense foreign competition and reduced opportunities for commercial shipbuilding, Navy programs are now providing nearly all of the workload for the U.S. shipbuilding and repair industry. Moreover, there is strong evidence that the U.S. industry is trending toward that level of capacity required only to support Navy programs. In this environment, the more competitive and efficient shipyards are continuing to win Navy business. With the number of facilities decreasing, the Navy is closely monitoring the ability of the shipbuilding and repair industry to respond to an emergency requirement for a major and rapid maritime build-up.

The U.S. shipbuilding and ship repair industry is an integral segment of the defense industrial base. The industrial base is broadly viewed as encompassing those elements of U.S. industry that contribute to defense related work and whose production capacity and technical expertise are required to meet peacetime and mobilization requirements. The U.S. shipbuilding and repair industry has a significant role in national defense: to maintain the operational fleet; and to participate in the planning and the preparation for expanding the industry's productive capacity to meet national security requirements.

Industrial response to national security emergencies requires the shipbuilding and repair industry to: accelerate construction, overhauls and repairs in progress; expedite reactivations; receive and repair battle-damaged ships; and accomplish the expanded programs as directed by the level of the emergency declared.

The industry is well positioned to accelerate new construction, overhauls and repairs in progress. Activation of even the expanded Ready Reserve Force ships could also be handled in a timely manner under the Navy's outporting plan. However, if the current low level of commercial business continues over the long term, surge demand requirements in an emergency situation will have to be reexamined. At the same time, overseas shipyards and suppliers may not be accessible, for a variety of reasons. If this becomes the case, increased emphasis should be placed on our ability to rapidly respond to mobilization requirements. One way to do this is to institute measures which encourage development of a more highly domestic industrial base engaged in military and merchant ship programs. Secretary Pyatt will discuss the Navy's recent studies concerning the shipyard industrial base, in more detail, in his testimony that will follow this presentation.

At the present time, our military sealift and commercial ship construction, overhaul and repair needs in a time of national emergency are being defined. The Secretary of Defense is working with the Secretary of Transportation on a series of studies to define national maritime requirements, encompassing not only military needs but also the national security requirements of the civilian economy and the industrial base. Analyses of these requirements would provide an added dimension in determining a valid assessment of the mobilization readiness of the shipbuilding and shiprepair industry and the industrial base to support it.

DoD endorses the need for a viable and geographically-balanced shipyard industrial base and is emphasizing increased competition to reduce cost and to stimulate industry. Competition has caused the shipyards to modernize and to improve their productivity. However, price competition has led to ship construction work being

well distributed on the East and Gulf Coast but not between East/Gulf and the West Coast. Secretary Lehman has cited before the Congress the need for the West Coast yards to reduce costs and has stated that the Navy could not afford to subsidize those yards. Hence, there is a growing tension between the requirements for maintaining the industrial base and reducing costs. The West Coast shipyards have been less competitive than the East and Gulf Coast shipyards, so the latter shipyards have obtained more of the new construction contracts.

Secretary Weinberger, in a letter to the Chairman of the Shipbuilder's Council of America said that the Navy's current and planned shipbuilding and repair programs are by themselves, insufficient to support the Nation's present shipyards at an efficient level of production. Moreover, he said, further decline in the number of shipyards would reduce the commpetitive base for these essential Navy programs. Clearly, what is needed, Mr. Weinberger pointed out, is a revitalization of the commercial segment of the maritime industry.

In recognition of the need for stability in our shipbuilding industrial base and increased sealift capacity, we in DoD have supported efforts to encourage the shipyards to modernize and become more competitive as the most efficient way to attract additional orders for commercial vessels. This would, in addition to the Navy shipbuilding and repair programs, create sufficient workload to maintain the major shipyards of the U.S. at an efficient level of production. In the interim, a balanced distribution of existing workload, which is mostly Navy, is the key factor in sustaining the shipyards essential to our surge and mobilization requirements. The policy of the Department is to foster competition among the yards as the most appropriate method of obtaining both the best return on shipbuilding appropriations and an efficient industrial base. Regulating the tension by means of competition is a difficult, long-term exercise that requires us to take into consideration the likely overall Navy ship force level requirements and the contribution of major ship repair and overhaul work to the industrial base.

Within that context, DoD will give every consideration to the level of work in the Pacific Coast shipyards as necessary to meet national defense requirements. DoD cannot consider that reaffirming legislation is either necessary or desirable, since it attempts to relieve the tension between cost and industrial base through law rather than through economics.

We believe that we are in compliance with the policy of Section 7302 of Title 10. Todd Shipyards was awarded a contract for FFG–61 as recently as 1984; Lockheed Shipbuilding is constructing Landing Ship Dock (LSDs) from fiscal 1982 and 1983 programs and National Steel and Shipbuilding now is converting two tankers to hospital ships. The contracts for the latter were signed in June and December 1983. West Coast shipyards have not successfully competed for major ship construction contracts in fiscal year 1985. There has been a downturn in employment in the shipyards in other parts of the country, as well as on the West Coast, with the consequent weakening of the industrial base. For example, General Dynamics Corporation has announced their decision to close the Quincy Shipyard Division. This Department will monitor this trend closely and take actions to sustain the base where necessary but for the present will continue to emphasize competition to the maximum extent. Perhaps we will have to adopt a more regional competition for new ship construction as is now utilized in ship repair. As stated previously, the Department of Defense will also continue to support efforts that will cause a revitalization of the commercial segment of the maritime industry as the best long term solution to the industrial base and sealift problems.

We hope that the U.S. shipyard industry will rationalize quickly to an efficient, cost-competitive posture. We have seen the shipyards make significant capital improvements and import production techniques that will move them toward that goal. We commend the shipbuilders for these initiatives. More needs to be done, particularly on the West Coast, where the major problem is cost. I must again stress that the Navy alone cannot be expected to sustain the U.S. shipyard industry in its present form.

Thank you for this opportunity to testify on the bill. I would be pleased to answer any question you may have.

Senator COHEN. Thank you. Mr. Pyatt, you may proceed.

STATEMENT OF HON. EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY FOR SHIPBUILDING AND LOGISTICS

Mr. PYATT. I would like to submit my testimony for the record and correct the written testimony, one egregious mistake of saying FFG's were built on the gulf coast. That was an oversight.

I also would like to support the suggestion made earlier that this subcommittee hear closed testimony on the mobilization base across the whole defense industry. There are significant issues that I think need to be considered, policy matters. From what I have seen, I would pass on that suggestion.

Senator COHEN. You would support having a closed session for discussion of mobilization needs?

Mr. PYATT. But much broader than shipbuilding. I am speaking of the other responsibilities I have. It is something that you need to understand.

You mentioned earlier about shipyards making investments. Shipyards all across the United States have made major investments in productivity improvements and that is the reason we can come up here year after year and talk to you about shipbuilding savings.

I believe there is no industry, no warship construction capability in the world any more efficient than you will find in the United States. I think that is a credit to our shipbuilding industry.

The west coast shipyards are not quite competitive. That was testified to this morning. The facts do show that there are two components to it.

One is the component of wage differential.

And the second component is productivity.

The west coast yards, according to data I am able to find, are not as productive per man-hour as are the other yards in the United States.

You mentioned earlier about battle damage repair. It is a very important issue and one we try to consider. When you look at the issue of battle damage repair, you have to consider the Navy facilities, particularly in the Pacific.

We have shipyards in Japan, Philippines, Guam, Pearl Harbor, Long Beach, and Puget Sound. So, you have to add all these together with the private sector capability.

Senator COHEN. Let me ask you this question.

We have heard the argument made that the skill required for repair of battle-damaged ships is different from the mix of skills required for peacetime repair and overhaul than for battle damage?

Mr. PYATT. I would say in battle damage you get into more structural repair, taking out structural pieces that are damaged, replacing them, plus refitting wiring, piping. It has a lot of similarities with some portions of new construction.

You also find in peacetime activities we do modify ships. It is a lot of the same kinds of work and these are done by yards other than new construction yards.

Senator COHEN. The answer is there is not a significant difference required between peacetime maintenance and battle-damage repair?

Mr. PYATT. No, other than the extent of damage and extent of repair. Other people might take a slightly different view.

I guess those are really the few topics I wanted to bring out a little bit extra.

I am available for questions.

[The prepared statement of Mr. Pyatt follows:]

PREPARED STATEMENT OF EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Mr. Chairman and distinguished members of the Committee. I am Everett Pyatt, Assistant Secretary of the Navy (Shipbuilding and Logistics).

It is my pleasure to appear before this committee to discuss S. 535, the National Shipbuilding Industrial Base Act of 1985. That bill reaffirms the policy stated in Section 7302 of Title 10 of the U.S. Code and directs the President to report, within 30 days of enactment of the bill, all actions taken or planned to implement the policy with respect to construction of major surface combatant vessels. A similar bill, H.R. 1662, has been introduced in the House of Representatives.

Section 7302 of Title 10 of the U.S. Code states that the Navy shall construct on the West Coast such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

The Navy is in compliance with the policy of Section 7302 of Title 10. Therefore, we oppose S. 535; we believe it to be unnecessary.

The U.S. shipbuilding and repair industry is at a crossroads. It is not internationally competitive and there is more capacity than can be sustained by peacetime Navy work and the modest amount of commercial work that remains. In the last ten years the demand for commercial ship construction has declined by 80 percent. The sharpest drop has come in the last five years—the number of shipyard production workers now engaged in commercial ship construction is one-third of what it was in 1980. The number of U.S. yards actively engaged in new construction has declined from a peak of 27 in 1977–1983 to 23 today. A total of 19 shipyards, most repair yards rather than construction yards, have closed in the last two and one-half years.

The Navy now has construction contracts in 14 private U.S. shipyards on all coasts. Our projections show that this number will remain about the same through the remainder of this decade. The Navy cannot itself support the ship construction industry that has relied not only on Navy work, but also on commercial construction that no longer exists.

Even though Navy new construction programs have grown the past five years, the total of Navy and commercial construction now employs about 10 percent fewer production workers than in 1980. The share of that employment in West Coast yards has declined from about 15 percent to 10 percent.

The West Coast shipbuilding industry has seen a loss in its market share because of an inability to be price competitive. The Navy is emphasizing competition for all of its business. While some West Coast yards have retained the ability to win new Navy construction contracts, others have consistently been high bidders in our competitions.

Our experience with the FFG–7 guided missile frigate class illustrates this cost differential. Ships of this class produced on the East and Gulf Coasts cost 35–40 percent less than ships constructed on the West Coast.

The West Coast yards contend that other industry in their area, particularly the aerospace industry, inflates labor cost for all industries. Yet, one shipyard in the San Diego area has been able to compete for Navy new construction contracts and win. We are unable to explain why West Coast labor rates remain high. We have encouraged West Coast shipyards to become more competitive and, just recently, two shipyards in the Portland area have negotiated reduced labor rates. One of those Portland yards recently won a competitive destroyer overhaul contract and an LPD overhaul contract in competition with Navy shipyards and other private shipyards. The other Portland yard recently won a crane ship construction contract. We hope that other shipyards on the West Coast will be able to make similar gains in competitiveness.

The location of a ship's construction yard makes little difference in its use by the Navy. Twenty percent of the ships now in the Atlantic Fleet were constructed on the West Coast. Fifty-nine percent of the ships in the Pacific Fleet were constructed on the East and Gulf Coasts. I should also note that, except for rare major conversions and SLEPS, all Navy ships are overhauled on the coast from which they oper-

ate, not necessarily on the coast where they were built. This provides a continuing Navy repair workload for shipyards on all coasts.

The critical early requirement for shipyard capacity in a national defense emergency is for *repair* capability rather than new construction capability. That is because the initial surge of shipyard work required comprises activation of reserve fleet ships, repair of battle damage, and acceleration of work on naval combatants in overhaul.

New naval construction in shipyards would not begin for several months after the beginning of a mobilization because of the leadtime required for material and components. Naval construction already underway when mobilization begins would be accelerated to the maximum extent feasible, but this would not require additional facilities, only additional manpower and some material. Priorities might actually dictate that manpower and material be diverted from new construction to the critical activation and repair tasks.

Therefore, when we speak of "adequate shipyard capacity for national defense," we mean *repair* capability. We believe that we would have time to bring additional construction facilities on line while awaiting material and components for new construction.

The repair capability that we must maintain for national defense is found not only in shipyards that construct naval ships but in a host of other private ship repair facilities, and in the eight Navy shipyards and the U.S. Coast Guard yard. While drydocks are required for some activation and repair work, much of our early activation and repair workload in a mobilization will be accomplished alongside a pier.

The Navy has completed two studies of shipyard requirements for national defense. The first, the Shipyard Mobilization Base (SYMBA) Study was completed in 1983. The most recent, the National Defense Shipyard (NADES) Study was finished earlier this year. I have submitted a presentation summarizing the results of both studies with this testimony.

These studies showed that the characteristics which we require of a U.S. shipyard base adequate to meet national defense requirements are as follows:

Geographically dispersed repair capability.

Private yards qualified to repair naval combatants in reasonably close proximity to major naval operating bases and homeports. Number adequate to support shipbuilding and repair requirements for naval combatants and auxiliaries.

Major commercial repair facilities at each major sealift port of embarkation.

Private yards with appropriate facilities in close proximity to reserve fleet layup sites.

Yards with a skilled workforce in place or able to respond quickly from nearby related occupations.

A healthy supplier and subcontractor work and battle damage repair.

The NADES study examined the case in which, by 1990, the U.S. shipyard industry declines to about 80 percent of the current capacity measured in production workers. That shipyard base was found to have all the desirable characteristics and it met our mobilization requirements. That shipyard base was projected on known Navy peacetime requirements for both repair and construction work. These requirements, particularly the repair requirement, are geographically dispersed in a manner similar to the geographic dispersal of Navy fleets and operating bases. Our studies found no problem of inadequate mobilization capability on any of the coasts.

We believe, therefore, that we are in compliance with the policy of Section 7302 of Title 10 and we intend to remain in compliance.

We hope that the U.S. shipyard industry will rationalize quickly to an efficient, cost-competitive posture. We have seen the shipyards make significant capital improvements and import production techniques that will move them toward that goal. We commend the shipbuilders for these initiatives. More needs to be done, particularly on the West Coast, where the major problem is cost. I must again stress that the Navy alone cannot be expected to sustain the U.S. shipyard industry in its present form.

Thank you for this opportunity to testify on the bill. I would be pleased to answer any questions you may have.

NATIONAL DEFENSE SHIPYARD STUDY (NADES)

AGENDA

- INTRODUCTION
- COMPARISON WITH SYMBA STUDY
- TRENDS IN THE BASE
- RESOURCES AVAILABLE
  - YARDS/FACILITIES
  - WORK FORCE
- MOBILIZATION WORKLOAD
- RESULTS
  - MANPOWER
  - FACILITIES
  - SHIPS IN YARDS
- FINDINGS
- RESOURCE REQUIREMENTS
- SUMMARY RECOMMENDATIONS
- CONCLUSIONS

INTRODUCTION

GOOD _____ , I AM CAPTAIN RALPH BUCK, OFFICE OF THE ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING & LOGISTICS). I WAS THE STUDY COORDINATOR FOR THE NATIONAL DEFENSE SHIPYARD STUDY, NADES, COMPLETED FEBRUARY, 1985.

AS THE PREVIOUS SHIPYARD MOBILIZATION BASE STUDY, SYMBA, WAS NEARING COMPLETION IN LATE 1983, OUR DISCUSSIONS WITH THE OFFICE OF THE SECRETARY OF DEFENSE REVEALED A NEED TO EXTEND THE SCOPE OF THAT STUDY. THIS EXTENDED ANALYSIS, NADES, STARTED IN DECEMBER 1983. IT IS INTENDED TO SUPPLEMENT AND COMPLEMENT THE SYMBA RESULTS, WHICH WERE MADE FINAL IN FEBRUARY, 1984.

THE WORKING GROUP AND STEERING COMMITTEE WERE ALMOST THE SAME AS FOR THE SYMBA STUDY. DELETED WERE COAST GUARD AND NON-GOVERNMENT OBSERVERS. WE ADDED REPRESENTATIVES FROM THE OFFICES OF THE SECRETARY OF TRANSPORTATION (POLICY) AND SECRETARY OF DEFENSE (PROGRAM ANALYSIS & EVALUATION). THE ASSISTANT SECRETARY OF THE NAVY FOR SHIPBUILDING & LOGISTICS, THE HONORABLE EVERETT PYATT, WAS THE CHAIRMAN OF THE STEERING COMMITTEE.

I WILL COVER THE POINTS LISTED ON THE SLIDE IN TODAY'S BRIEFING.

57-793 0 - 86 - 3

PURPOSE OF THE NADES STUDY

- RESPOND TO CURRENT DOD MARITIME POLICY FORMULATION INITIATIVES
  - DRY CARGO SHIPPING POLICY: 4/24/84
  - ECONOMIC SUPPORT SHIPPING REQUIREMENTS: UNDERWAY
  - DEFENSE TANKER/POL POLICY: UNDERWAY
  - SHIPYARD MOBILIZATION BASE MINIMUM REQUIREMENTS
- EXTEND THE RESULTS OF THE SYMBA STUDY TO EVALUATE THE ABILITY OF A CONSTRAINED BASE TO ACCOMPLISH DEFENSE-RELATED MOBILIZATION TASKS

PURPOSE

THE NADES STUDY IS PART OF A SERIES OF ADMINISTRATION STUDIES DESIGNED TO ASSIST IN FORMULATING MARITIME POLICY.

- THE DRY CARGO SEALIFT PORTION WAS COMPLETED ABOUT ONE YEAR AGO.
- THE ECONOMIC SUPPORT AND TANKER STUDIES ARE NOW NEARING COMPLETION BY MARAD AND OSD RESPECTIVELY.

NADES IS DESIGNED TO EVALUATE THE ABILITY OF A CONSTRAINED BASE IN A GLOBAL MOBILIZATION SITUATION - A BASE REDUCED IN SIZE TO ABOUT THAT CURRENTLY ENGAGED IN COAST GUARD AND NAVY WORK.

NADES vs SYMBA

- SCENARIO – DEFENSE GUIDANCE/SEALIFT STUDY "A"
- PROGRAMS – FY '85-89 FYDP
- YARDS – REDUCED NUMBER OF PRIVATE YARDS TO 57
- HORIZON – EIGHT MONTHS OF CONFLICT
- ACTIVATIONS – FEWER ISNAC AND VICTORIES
  LIMITED RRF OUTPORTING
  NO RRF-20 SHIPS
  ALL RRF REQUIRE 1100 MANDAYS
- WORKFORCE – SYMBA ASSUMED OCT '82 WORKFORCE (DATA DISCOVERED TO BE 5000 HIGH)
  NADES DERIVED WORKFORCE FROM PROJECTED WORK
- NEW FEATURES

NADES VS SYMBA

THE STUDY DIFFERED SIGNIFICANTLY FROM THE PREVIOUS STUDY OF THE MOBILIZATION BASE IN SEVEN AREAS AS LISTED HERE:

- THE PLANNING SCENARIO ASSUMES NEARLY TEN MORE DAYS OF WARNING BEFORE HOSTILITIES.
- PROGRAMS FUNDED IN THE '85-89 FIVE YEAR DEFENSE PLAN HAVE DIFFERENT IMPLICATIONS FOR A 1988 MOBILIZATION THAN THE '84 FYDP.
- AVAILABLE PRIVATE YARDS ARE REDUCED FROM 110 TO 57.
- ONLY THE INITIAL PHASES OF MOBILIZATION WERE ANALYZED IN DETAIL - UP TO THE POINT AT WHICH A WARTIME BUILDING PLAN COULD COMMENCE.
- SOME CHANGES TO ACTIVATION REQUIREMENTS HAVE BEEN MADE BY OPNAV AND MARAD.
- THE INITIAL WORKFORCE WAS PROJECTED FOR THE IDENTIFIABLE, PRE-MOBILIZATION WORK LOAD.
- AND, SEVERAL NEW METHODS WERE USED.

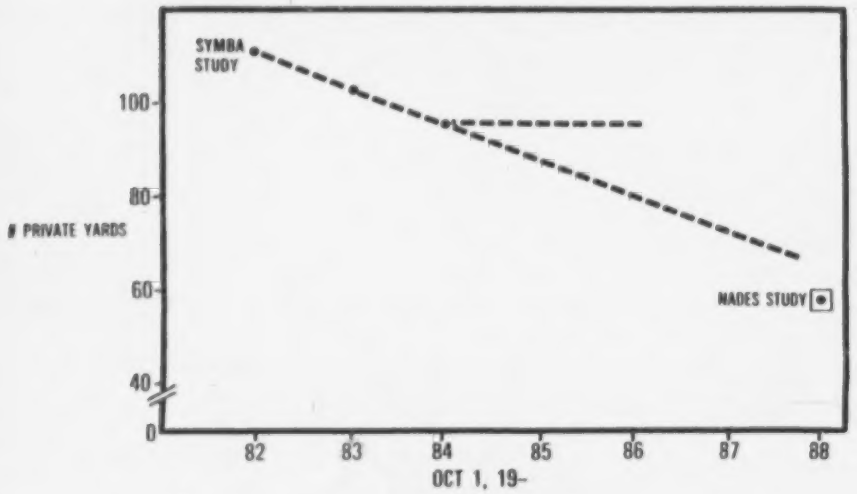
NEW FEATURES MODELED

- CONSTRAINED WORKFORCE EXPANSION RATES
- WORK INTERRUPTIONS TO LOWER PRIORITY WORK
- SHIP AVAILABILITIES GENERATED FOR SEF MODS
- INCREASED WORKWEEK BEFORE D-DAY FOR RRF/SEF

NEW FEATURES

- WORKFORCE EXPANSION - SYMBA ASSUMED AN UNLIMITED WORKFORCE GROWTH RATE. WW II AGGREGATE MONTHLY RATE WAS 5-10% FROM 1940-1942. NADES USED 2-25%, DEPENDING ON YARD SIZE; AN AGGREGATE RATE OF 7.3%
- LOW PRIORITY WORK - ONGOING CONSTRUCTION & MAINTENANCE COULD BE TEMPORARILY SUSPENDED TO ACCOMMODATE PEAK ACTIVATIONS.
- SEF MODIFICATIONS - USED A REPRESENTATIVE TIME/LOCATION PLOT FROM MSC TO GENERATE SHIP AVAILABILITIES FOR MODS.
- WORKWEEK INCREASED - MENT TO 56 HOURS PER WEEK AT HIGH PRODUCTIVITY FOR RRF & SEF WORK PRIOR TO D-DAY.

TRENDS IN THE SHIPYARD MOBILIZATION BASE



TRENDS IN THE PRIVATE SHIPYARD MOBILIZATION BASE

THIS GRAPH SHOWS THE RECENT HISTORICAL COUNT OF PRIVATE YARDS WHICH MEET THE MOBILIZATION BASE DEFINITION USED IN THE SYMBA STUDY (THE ABILITY TO BUILD OR REPAIR SHIPS AT LEAST 400' LONG).

SIXTEEN YARDS HAVE CLOSED SINCE THE BASE WAS FIRST CALCULATED IN 1982 IN SYMBA -- ONE YARD WAS ADDED (NORTH FLORIDA SHIPYARDS, JACKSONVILLE).

IF THE TREND CONTINUES, THE "WORST CASE" SITUATION EVALUATED IN THE MADES STUDY COULD BE NEARLY CORRECT. HOWEVER, WE COULD BE VERY PESSIMISTIC IF THE DECLINE IS ARRESTED NOW.

NATURALLY, LARGE AND CAPABLE YARDS ARE VITAL TO THE CAPABILITY OF THE SHIPYARD BASE. SOME YARDS ARE ALSO LOCATED STRATEGICALLY. LOSS OF SUCH YARDS WOULD BE VERY DETRIMENTAL IN A MOBILIZATION SITUATION.

PRODUCTION WORKER STATISTICAL TREND

	SYMBA LIST OF YARDS		NADES LIST OF YARDS	
	YARDS	WORKERS	YARDS	WORKERS
• 1 OCT 1982	119	159,500*	66	141,100
• 1 OCT 1983	111	144,070	66	133,600
• 1 OCT 1984	104	140,854**	66	131,400**
• 1988 PRE-MOB	N.A.	N.A.	66	142,300

*NAVAL SHIPYARD PRODUCTION DATA WAS OVERESTIMATED IN SYMBA AT 164,500

**44,900 IN NSY

PRODUCTION WORKER STATISTICS

THE FIRST THREE LINES ON THIS SLIDE SHOW THE HISTORICAL COUNT OF PRODUCTION WORKERS IN TWO CATEGORIES: THE YARDS WHICH QUALIFY FOR INCLUSION IN THE SYMBA STUDY AND THE 66 YARDS SELECTED FOR THE NADES STUDY.

NOTE THAT CURRENT EMPLOYMENT IN THE 104 YARDS IS ABOUT 1,400 SHORT OF THE PROJECTED PEACETIME, PRE-MOBILIZATION WORK IN 1988.

THERE HAS BEEN SOME CONCERN WHETHER ALL THE NADES PRIVATE YARDS COULD SURVIVE IF CURRENT BUSINESS DECLINES MORE. HOWEVER, SUFFICIENT WORK IS PROJECTED TO 1988 TO MEET OR EXCEED THE WORK WHICH HAS SUSTAINED THE 57 PRIVATE YARDS IN THE PAST.

THERE ARE CURRENT INITIATIVES TO MAKE THE NAVAL SHIPYARDS MORE EFFICIENT AND TO REDUCE THEIR WORKFORCE. THAT SHOULD HAVE NO EFFECT ON OUR PROJECTION OF THE NUMBER OF PRODUCTION WORKERS REQUIRED.

GEOGRAPHIC DISTRIBUTION OF YARD RESOURCES

	EAST	GULF	WEST	LAKES	OTHER	TOTAL
MAJOR PRIVATE	11	6	9	2	1	29
OTHER PRIVATE	14	3	7	2	2	28
PUBLIC YARDS	5	0	3	0	1	9
TOTAL	30	9	19	4	4	66

A "MAJOR" YARD HAS THE CAPABILITY TO HAUL VESSELS 475' BY 68'. ALL PUBLIC YARDS ARE MAJOR EXCEPT THE USCG YARD.

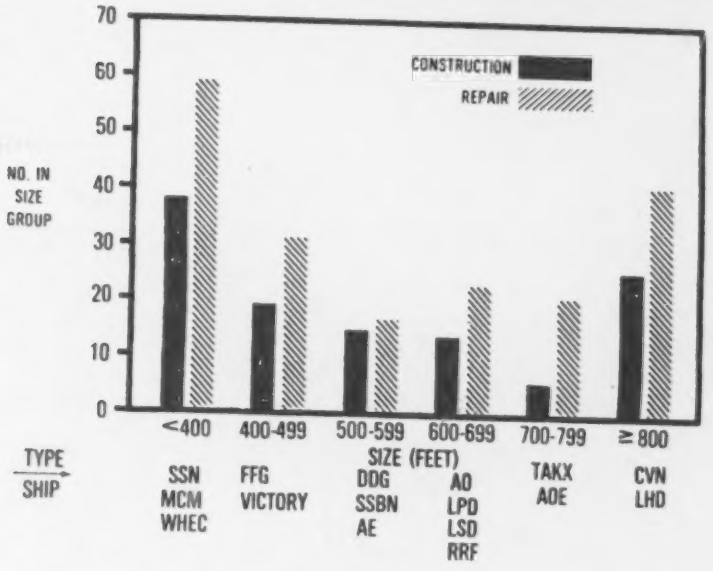
PHYSICAL RESOURCES AVAILABLE

THIS GEOGRAPHIC DISTRIBUTION OF THE YARDS CONSIDERED IN THE STUDY IS OBTAINED BY:

- PROJECTING YARDS CAPABLE OF COMPLETING THE NAVY AND COAST GUARD CONSTRUCTION, MAINTENANCE, MODERNIZATION AND REPAIR WORK DOCUMENTED IN THE '85-89 FYDP.
- SELECTING MUNICIPALLY OPERATED FACILITIES OR COMMERCIAL REPAIR YARDS IN MAJOR PORT AREAS.
- ADDING IN SOME CAPACITY FOR OFFSHORE OIL INDUSTRY WORK IN THE BEAUMONT, TEXAS AREA.

IF WE APPLY THE MARAD TERMINOLOGY, "MAJOR SHIPBUILDING YARD," TO REPAIR YARDS AS WELL, WE OBTAIN THE SPLIT SHOWN.

SIZE DISTRIBUTION OF YARD FACILITIES



YARD FACILITIES

THIS IS ONE WAY TO CATALOG THE FACILITIES AVAILABLE IN THE 66 YARDS SELECTED FOR THE STUDY. "REPAIR" FACILITIES ARE DEFINED HERE AS EVERYTHING EXCEPT SIDE-LAUNCHING WAYS AND LAND-LEVEL BUILDING POSITIONS.

SHIP TYPES WHICH USE FACILITIES IN EACH SIZE GROUP ARE SHOWN ALONG THE BOTTOM.

FOR DETAILED SCHEDULING, ADDITIONAL CONSIDERATIONS WERE:

- SOME SHIPS CAN BE REPAIRED ON BUILDING POSITIONS
- SEVERAL SMALL SHIPS MIGHT BE ACCOMODATED IN ONE LARGE DOCK OR BASIN.
- SOME YARDS FUNCTION BEST USING CERTAIN COMBINATIONS OF FACILITIES IN A PARTICULAR WAY (IE. SSN CONSTRUCTION).

INITIAL PRODUCTION WORKFORCE

		YARDS	WORKERS
PUBLIC	EAST COAST	5	23,683
	WEST COAST	3	16,313
	HAWAII	1	3,240
		9	43,236
PRIVATE	EAST COAST	25	63,925
	GULF COAST	9	19,486
	GREAT LAKES	4	1,254
	WEST COAST	16	14,031
	NON-CONUS	3	363
		57	99,059
	TOTAL	66	142,295

INITIAL WORKFORCE

THIS SHOWS THE AGGREGATE INITIAL WORKFORCE PROJECTED TO BE REQUIRED IN THE 66 YARDS AT THE START OF A 1988 MOBILIZATION, ASSUMING NO SIGNIFICANT WORK WAS IN PROGRESS AT ANY OTHER YARDS.

- BOTH PRIVATE AND PUBLIC PRODUCTION WORKERS ARE DEFINED TO INCLUDE DIRECT LABOR, FIRST LINE SUPERVISORS, AND DIRECT SHOP LABOR.
- GIVEN THE AVAILABILITY OF SUFFICIENT WORKERS, THERE IS A POTENTIAL TO EXPAND THE PUBLIC WORKFORCE TO OVER 140,000 AND THE PRIVATE WORKFORCE IN THESE 57 YARDS TO OVER 268,000. NO YARDS IN OUR STUDY WERE REQUIRED TO EXPAND TO THEIR MAXIMUM MOBILIZATION POTENTIAL IN THE 9 MONTHS OF MOBILIZATION WHICH WE MODELED. THE PRIMARY CONSTRAINT WAS THE EXPANSION RATE.

INITIAL PRODUCTION WORKFORCE DISTRIBUTION

WORKERS PER YARD	NO. YARDS	WORKERS	PERCENT
10,000 +	3	47,052	33
4,000--9,999	11*	58,083	41
2,000–3,999	4**	11,429	8
1,000–1,999	8	11,911	8
500–999	10	7,150	5
200–499	17‡	5,231	4
0–199	13	1,439	1
	66	142,295	100

* 7 NSY
** 1 NSY
‡ 1 USCG

WORKFORCE DISTRIBUTION

THIS TABLE SHOWS THE SIZE DISTRIBUTION OF THE YARDS MODELED IN THE STUDY. SOME OF THE INTERESTING STATISTICS OF OUR YARD POPULATION WERE THAT:

- THE THREE LARGEST PRIVATE YARDS HAVE MORE WORKERS THAN ALL NINE PUBLIC YARDS (E.B., N.N., INGALLS)
- THE TEN LARGEST PRIVATE YARDS HAVE OVER HALF (52%) THE TOTAL PRODUCTION WORKERS (73,578).
- TWENTY-ONE PERCENT OF THE SIXTY-SIX YARDS WOULD HAVE 74% OF THE INITIAL WORKFORCE ENGAGED (7 PUBLIC AND 7 PRIVATE YARDS).
- NINETY PERCENT OF THE WORKFORCE IS INITIALLY ENGAGED IN THE 8 NAVAL SHIPYARDS AND 18 PRIVATE YARDS.

SUMMARY MOBILIZATION WORKLOAD

	# SHIPS
• ON-GOING MAINTENANCE, MODERNIZATION AND REPAIR	155*
• ON-GOING NEW CONSTRUCTION	89
• ACTIVATIONS	332
• SEALIFT ENHANCEMENT	418
• NEW MAINTENANCE, MODERNIZATION AND REPAIR	763**

* PLUS MANPOWER ESTIMATE ONLY FOR COMMERCIAL SHIPS

** PLUS MANPOWER ESTIMATE ONLY FOR UNSCHEDULED NAVY WORK

MOBILIZATION WORKLOAD

THIS SHOWS THE CATEGORIES OF WORK TO BE PERFORMED DURING THE INITIAL MOBILIZATION - OUT TO D+8 MONTHS. NOT ALL SHIPS NEED TO BE IN YARDS AT THE SAME TIME, THOUGH WE FOUND THAT ABOUT 550 WOULD BE ON D-DAY.

TWO CATEGORIES OF WORK WERE ESTIMATED IN TERMS OF WORK FORCE ONLY, NOT NUMBERS OF SHIPS:

- COMMERCIAL VESSEL MAINTENANCE IN PROGRESS ON M-DAY WAS LUMPED WITH NON-SHIP WORK TO PRODUCE ABOUT 18,000 WORKERS.
- UNSCHEDULED NAVY SHIPWORK WAS NEARLY LEVEL-LOADED IN TERMS OF WORKERS REQUIRED - ABOUT 5000.

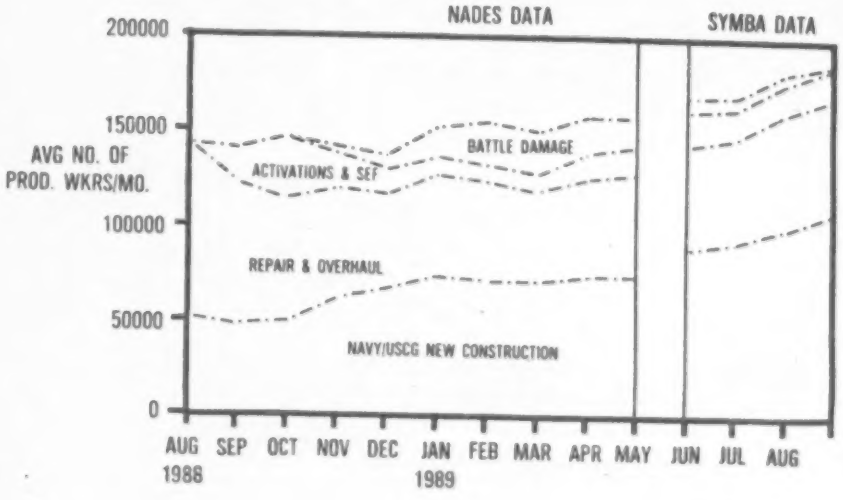
BATTLE DAMAGE REPAIR DATA IS CLASSIFIED AND NOT BROKEN OUT SEPARATELY HERE.

THE WARTIME CONSTRUCTION PLAN WOULD NOT SEE ANY NEW SHIP STARTS WITHIN THE EIGHT MONTH HORIZON OF THE STUDY.

RESULTS

- MANPOWER
  - NADES BREAKDOWN
  - NADES vs SYMBA
  - CONSTRAINED YARDS
- FACILITIES
  - UTILIZATION
  - CONSTRAINED YARDS
- NUMBER OF SHIPS IN YARDS

SHIPYARD WORKLOAD



SHIPYARD WORKLOAD

THIS SHOWS THE GENERATED MANPOWER REQUIREMENTS FOR THE 10 MONTHS ACTIVITY SIMULATED IN THE STUDY. MOBILIZATION STARTED IN EARLY SEPTEMBER. D-DAY IS 1 OCT.

COMPARABLE SYMBA STUDY DATA IS SHOWN AT THE RIGHT FROM THE D+8 MONTHS POINT.

FOR THE NADES STUDY, MANPOWER FLUCTUATIONS FROM OCTOBER TO JANUARY ARE SOMEWHAT OFFSETTING:

- NSY WORK REQUIRES 10,400 MORE WORKERS; THE PRIVATE YARDS, AFTER AN INITIAL JUMP TO ACCOMMODATE ACTIVATIONS, EXPERIENCE A REDUCED REQUIREMENT BY JANUARY WHICH TAKES THEM ALMOST BACK TO SEPTEMBER LEVELS (DOWN 4,900 FROM THE EARLY OCTOBER PEAK).

- WORK CATEGORIES WHICH EXPERIENCE REDUCED DEMANDS ARE:
  - MERCHANT ACTIVATIONS ARE DOWN 23,400
  - SEF COMPLETES; DOWN 3,600
  - OVERHAUL & REPAIR IS DOWN 10,800

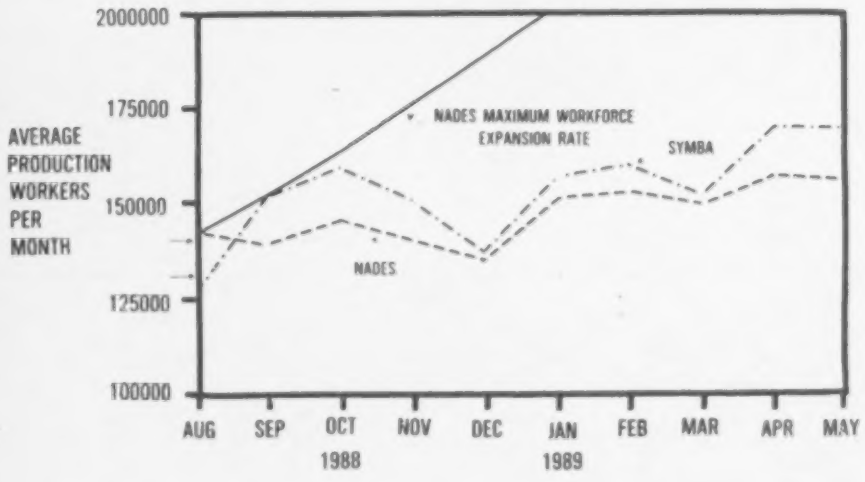
  \- 37,800

- WORK CATEGORIES WHICH EXPERIENCE INCREASED DEMANDS ARE:
  - CONSTRUCTION ACCELERATES; UP 23,900
  - BATTLE DAMAGE REQUIRES 15,500
  - ISNAC ACTIVATION INCREASES 3,900

  + 43,300

  NET + 5,500

PRODUCTION WORKFORCE REQUIREMENTS



NADES vs SYMBA WORK FORCE REQUIRED

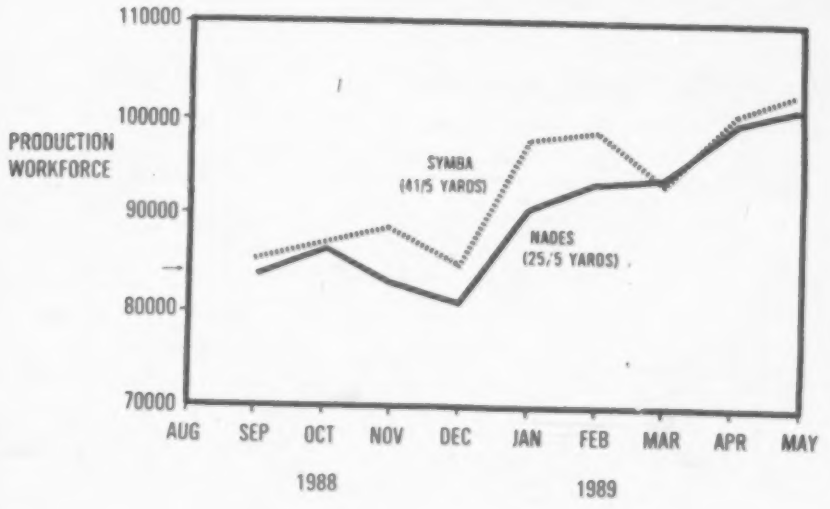
THIS SHOWS THE "TOP LINE" FROM THE PREVIOUS SLIDE, AS WELL AS THE COMPARABLE DATA FROM SYMBA. THE AUGUST & SEPTEMBER SYMBA PROJECTED WORKFORCE DID NOT INCLUDE AN ESTIMATE FOR COMMERCIAL REPAIR & NON-SHIP WORK AS DOES NADES.

THE EXPANSION LINE IS THE AGGREGATE LIMIT ON EMPLOYMENT, EACH MONTH, FOR THE 66 YARDS SIMULATED IN THE NADES STUDY - THE AVERAGE EXPANSION RATE IS 7.3%. OVER ONE-THIRD OF THE YARDS BUMPED AGAINST THIS CONSTRAINT IN THE FIRST MONTH OF MOBILIZATION AND REQUIRED US TO TEMPORARILY SUSPEND SOME LOW-PRIORITY WORK IN ORDER TO ACCOMPLISH ACTIVATION WORK ON TIME.

THE TWO ARROWS AT LEFT INDICATE THE 1 OCTOBER 1984 PRODUCTION WORKER EMPLOYMENT:

- 140,400 IN THE 103 YARDS STILL OPEN FROM THE 119-YARD SYMBA LIST PLUS ONE NEW YARD.
- 131,400 IN THE 66 YARDS USED IN NADES

EAST COAST PRODUCTION WORKFORCE REQUIREMENTS



EAST COAST REQUIREMENTS

THIS SHOWS THE MANPOWER REQUIRED IN THE 25 PRIVATE AND 5 PUBLIC YARDS ON THE EAST COAST. THE ARROW AT LEFT SHOWS THE 1 OCTOBER 1984 EMPLOYMENT LEVEL IN THESE YARDS.

THE DIP IN SYMBA REQUIREMENTS DURING MARCH WAS CAUSED BY REDUCED WORKLOAD AS BATTLE DAMAGE REPAIRS WERE COMPLETED. APRIL THEN SAW A JUMP CAUSED BY NAVY CONSTRUCTION AND RESUMED NAVY MAINTENANCE.

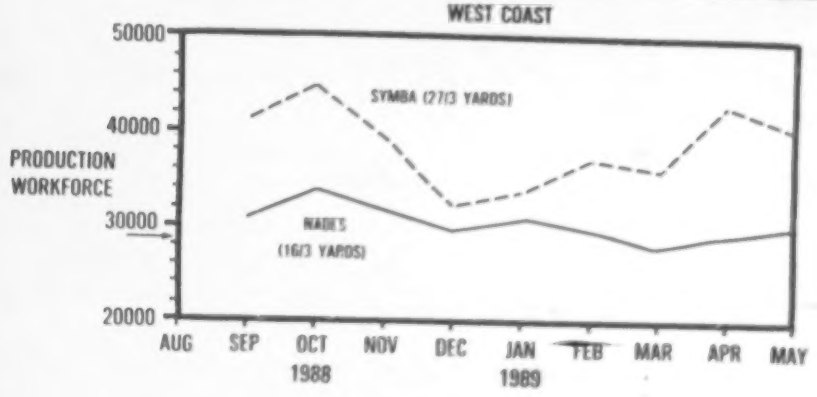
GULF COAST MANPOWER REQUIREMENTS (9 YARDS)

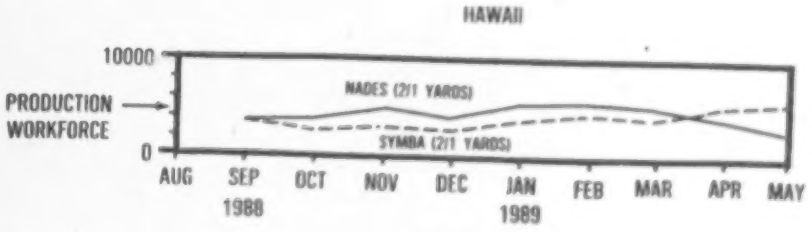
IN THE NADES SIMULATION, SOME ONGOING WORK WAS TEMPORARILY SUSPENDED IN ORDER TO ACCOMPLISH HIGH PRIORITY ACTIVATION WORK WITHIN THE EXPANSION RATE CONSTRAINTS. IN NOVEMBER, WHEN THE WORKLOAD DROPPED OFF FOR ACTIVATION, CONSTRUCTION WORK WAS ACCELERATED TO MAINTAIN THE NEARLY LEVEL-LOADING SEEN HERE FOR THE GULF COAST. SYMBA HAD LESS ONGOING CONSTRUCTION WORK (REQUIRING ABOUT 3,000 FEWER WORKERS).

GREAT LAKES MANPOWER REQUIREMENTS (4 YARDS)

THE MAJOR DIFFERENCE IN THE LAKES' REQUIREMENTS WAS LESS CONSTRUCTION WORK PROJECTED IN NADES.

PRODUCTION WORKFORCE REQUIREMENTS





WEST COAST MANPOWER REQUIREMENTS

THE LARGE INITIAL DIFFERENCE BETWEEN THE TWO STUDIES FOR THE 16 PRIVATE AND 3 NAVY WEST COAST YARDS RESULTED FROM A SMALLER CONSTRUCTION WORKLOAD PROJECTED IN THE NADES STUDY: ABOUT ONE-THIRD THAT OF SYMBA. THIS PROJECTION REFLECTS THE CURRENT TREND IN GOVERNMENT SHIP CONSTRUCTION CONTRACTS AWAY FROM THE MORE EXPENSIVE WEST COAST YARDS. NADES ALSO HAD A SMALLER ACTIVATION WORKLOAD (FEWER SHIPS TO ACTIVATE) AND SPREAD OUT THE SEF MODIFICATION WORK OVER ONE MORE MONTH THAN SYMBA.

HAWAIIAN MANPOWER REQUIREMENTS

THE SITUATION IN HAWAII DID NOT CHANGE MUCH FOR 2 PRIVATE AND 1 NAVY YARD, BUT IS INTERESTING FOR TWO REASONS:

- NADES HAD MORE REPAIR WORK, SEF MODS, AND BATTLE DAMAGE REPAIR INITIALLY, BUT SLIGHTLY LESS ACTIVATION WORK
- IN APRIL, NADES WAS NOT SCHEDULED WITH THE SAME JUMP IN REPAIR WORK, WHILE SYMBA ISNAC WORK REMAINED HIGHER

PUERTO RICAN MANPOWER REQUIREMENTS

NE YARD - NOT USED IN EITHER SYMBA OR NADES

MANPOWER-CONSTRAINED YARDS

- THIRTY-NINE PERCENT OF THE YARDS WERE FOUND TO BE CONSTRAINED BY THE RATE-OF-EXPANSION ASSUMPTIONS IMPOSED
- DURATION OF CONSTRAINTS VARIED BY YARD
- 17 OF 21 PRIVATE YARDS WERE CONSTRAINED IN SEPTEMBER ~~1980~~ (FIRST MONTH OF MOBILIZATION)
- BREAKDOWN BY AREA:

EAST COAST	7 PRIVATE; 3 NAVY
GULF COAST	4 PRIVATE
WEST COAST	9 PRIVATE; 1 NAVY
HAWAII	1 PRIVATE; 1 NAVY

MANPOWER CONSTRAINTS

WITH THE EXPANSION CONSTRAINT IMPOSED ON THE PRIVATE YARDS, MANPOWER BECAME A SIGNIFICANT PROBLEM IN SCHEDULING WORK FOR THIRTY-NINE PERCENT OF THE YARDS: 21 PRIVATE YARDS AND 5 NAVY YARDS.

SOME LOW PRIORITY WORK WAS INTERRUPTED TO EASE THE EFFECTS OF THE MANPOWER CONSTRAINTS, BUT THAT WAS NOT ALWAYS SUFFICIENT TO ALLOW TIMELY SCHEDULING OF HIGH-MANPOWER TASKS.

SINCE PART OF THE REASON FOR THE EXPANSION CONSTRAINT WAS TO ACCOUNT FOR TRAINING, FORMATION INTO CREWS, AND EXPANSION OF SERVICE FACILITIES, WE DID NOT ASSUME THAT WORKERS WOULD BE SHIFTED AMONG YARDS AT A RATE GREATER THAN THAT DETERMINED FOR EACH YARD. GENERALLY, QUALIFIED YARDS IN AN AREA WERE ALL CONSTRAINED AT THE SAME TIME ANYWAY.

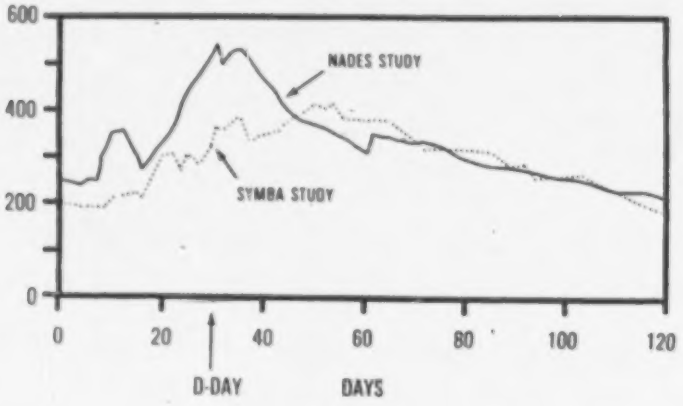
FACILITY-CONSTRAINED YARDS

- DIFFICULT TO DETERMINE DEGREE OF CONSTRAINT
  - CONSTRAINT IS REAL ONLY IF ALL APPROPRIATE FACILITIES IN A YARD ARE OCCUPIED AND A DEMAND IS PRESENTED WHICH NO OTHER YARD CAN MEET
  - OTHER QUALIFIED YARDS MAY BE MANPOWER-CONSTRAINED AT THE TIME
  - STUDY DID NOT MODEL SHIFTS OF MANPOWER AMONG YARDS
- DOCKS, WAYS, AND LIFTS OVER 400 FEET LENGTH
  - 66-YARD LIST HAS 80% THE NUMBER OF THE 119-YARD SYMBA LIST
  - PEAK UTILIZATION COMES 2 WEEKS EARLIER AND IS 120% THE SYMBA RATE
  - FEWER FLOATING DRYDOCKS REQUIRED IN ALL SIZES
  - A FEW MORE GRAVING DOCKS AND WAYS USED IN THE INITIAL PHASES OF NADES

FACILITY CONSTRAINTS

- FACILITY CONSTAINTS WERE NOT A PROBLEM EXCEPT IN A FEW INDIVIDUAL CASES. IT WAS DIFFICULT TO DETERMINE ANY ACTUAL CONSTRAINT WHEN THE MANPOWER LIMITATIONS WERE SO SEVERE.
- GENERALLY, THE LARGER FACILITIES WERE IN GREATER DEMAND.
- PEAK UTILIZATION DATA IS USEFUL TO DETERMINE AGGREGATE CONSTRAINT POINTS, BUT SHOULD NOT BE USED TO DETERMINE REQUIREMENTS.
- THE PEAK UTILIZATION RATE FOR ALL FACILITIES IN NADES IS NOT SURPRISING - IT IS IN PROPORTION TO THE REDUCED NUMBER OF FACILITIES FROM THE SYMBA LIST OF YARDS.
- THE EARLIER PEAK DEMAND FOR FACILITIES IN NADES IS A DIRECT RESULT OF THE EARLIER START OF MOBILIZATION IN THE SCENARIO USED.

COUNT OF SHIPS IN YARDS



THIS FIGURE SHOWS THE NUMBER OF SHIPS SIMULTANEOUSLY IN YARDS DURING THE EARLY PHASES OF MOBILIZATION. THE INITIAL YARD LOADING WAS 244 SHIPS. THIS WAS INCREASED RAPIDLY OVER THE FIRST MONTH OF MOBILIZATION AS 750 SHIPS WERE PHASED THROUGH ACTIVATIONS AND SEALIFT ENHANCEMENT MODIFICATIONS. PEAK LOADING WAS NEARLY 550 SHIPS.

THOUGH MANPOWER REQUIREMENTS WERE LOWER IN NADES THAN SYMBA, MORE SHIPS WERE ABLE TO BE PROCESSED IN THE SAME TIME BECAUSE EACH SHIP GENERALLY HAD LESS WORK REQUIRED THAN IN SYMBA:

- ON D+3, 136 SHIPS WERE IN YARDS FOR SEF MODIFICATIONS. MODIFICATION PACKAGES DESCRIBED FOR THE FY 85-89 FYDP REQUIRE FEWER MANDAYS THAN THOSE ESTIMATED IN THE PREVIOUS FYDP USED IN SYMBA.
- RRF TEN-DAY READINESS SHIPS ARE NOW ESTIMATED TO REQUIRE THE SAME ACTIVATION EFFORT AS FIVE-DAY READINESS SHIPS - THIS IS ONE-HALF THE ESTIMATE USED IN SYMBA.

FINDINGS

• RRF ACTIVATION:	50 SHIPS IN 5 DAYS 90 SHIPS IN 9 DAYS
• RRF OUTPORTING:	NOT REQUIRED IF BREAKOUT IS RAPID – USEFUL TO BALANCE WORKLOAD – COULD BE NECESSARY WHEN RRF EXPANDED
• SEF MODIFICATIONS:	TAKE TOO LONG TO MEET SEALIFT REQUIREMENTS – FY '86 PROGRAM BUDGET SOLVES PROBLEM – REVISE FOR A LARGER RRF
• WEST COAST:	NEED MORE WORKERS IN PLACE OR FEWER INITIAL TASKS
• PRODUCTION WORKFORCE:	ADD 3,500 WITHIN 2 MONTHS TO GULF AND WEST – ADD 14,600 WITHIN 8 MONTHS – MINIMUM ACCESSIONS – REQUIRES COMPLETE MOBILITY
• WORKFORCE EXPANSION:	KEY CONSTRAINT FOR 40% OF THE YARDS – VITAL TO ACCOMPLISH MOBILIZATION
• YARDS REQUIREMENTS:	9 PUBLIC + 55 PRIVATE YARDS NEEDED FOR BASIC MOBILIZATION – SUBJECT TO WORKFORCE AVAILABILITY

FINDINGS

THESE ARE THE KEY FINDINGS AND OBSERVATIONS WHICH DERIVE FROM THE STUDY.

- THE SIZE OF THE RRF IS THE TOPIC OF A CURRENT OPNAV STUDY. INDICATIONS ARE THAT IT WILL HAVE TO INCREASE, POSSIBLY TO ABOUT 116 SHIPS OR MORE. HOWEVER, ABOUT 40 WOULD BE IN RRF-20 READINESS CATEGORY AND COULD BE ACTIVATED SEQUENTIALLY AFTER THE EARLIER SHIPS. OUTPORTING IS CURRENTLY BEING DONE TO PREVENT BOTTLENECKS.
- THOUGH MOST SEF MODIFICATIONS ARE NOW PROGRAMMED FOR PEACETIME COMPLETION, ADDITIONAL CONTAINER SHIP MODS MAY BE NECESSARY WITH AN EXPANDED RRF.
- THE TREND TOWARD LESS NAVY SHIPBUILDING ON THE WEST COAST SUGGESTS RETHINKING THE MOBILIZATION WORKLOAD TO BE ACCOMPLISHED THERE AS ADDITIONAL YARDS CLOSE.
- THE GULF COAST MAY BE ONLY MARGINALLY ABLE TO HANDLE THE WORKLOAD THERE WITH THE YARDS WE USED IN THE STUDY.
- WE NEED TO CAREFULLY STUDY THE AVAILABILITY OF MANPOWER IN THE SEVERAL REGIONS. ALSO, IT IS IMPORTANT TO BE ABLE TO MOVE WORKERS EASILY AMONG CONSTRUCTION, ACTIVATION AND REPAIR WORK.
- IF THE WORKFORCE IS AVAILABLE, ALL MAJOR MOBILIZATION TASKS CAN BE ACCOMPLISHED IN 9 PUBLIC AND 55 PRIVATE YARDS - 27 OF THE PRIVATE YARDS WOULD BE PARTIALLY OR ENTIRELY ENGAGED IN NAVY WORK.

RESOURCE REQUIREMENTS

	YARDS	BUILDING POSITIONS	DOCKS	WORKERS
● 1978-79 STUDIES (1984 MOBILIZATION)				
FIRST 90 DAYS	53	71	115	99,000
LONG TERM*	72	108	–	303,000
● 1982-83 SYMBA STUDY (1988 MOBILIZATION CONTINUING 3 YEARS)	116	76	179	225,000
● 1984-85 NADES STUDY (1988 MOBILIZATION FIRST 9 MONTHS)	64	49	123	157,000

*REQUIRED ADDITION OF 5 NEW YARDS WITH A TOTAL OF 25 BUILDING WAYS.

RESOURCES REQUIREMENTS

THIS SLIDE SHOWS THE COMPARISON AMONG THE GENERATED RESOURCES REQUIRED IN THE THREE MAJOR SHIPYARD MOBILIZATION BASE STUDIES DONE IN THE PAST 8 YEARS. A MAJOR DIFFERENCE EXISTS, HOWEVER, IN THE WAY THE 1978/79 REQUIREMENTS WERE GENERATED AND THE WAY SYMBA & NADES REQUIREMENTS WERE GENERATED:

- THE 1979 STUDY ADDED ADDITIONAL RESOURCES REQUIRED TO MEET EXACTLY THE REQUIREMENTS WHICH WERE IMPOSED, INCLUDING A LARGE WARTIME SHIPBUILDING PROGRAM.
- SYMBA & NADES STARTED WITH A LIST OF YARDS ASSUMED TO BE IN EXISTENCE WHEN MOBILIZATION STARTS. WORKLOAD REQUIREMENTS WERE MATCHED TO THE YARDS TO SEE WHERE PROBLEMS WOULD APPEAR.
  - SYMBA ASSUMED THE AVAILABILITY OF UP TO 119 YARDS; MANY YARDS WERE USED FOR EXPEDIENCY RATHER THAN STRICT REQUIREMENT: MANPOWER SUPPLY WAS LARGELY UNCONSTRAINED; WARTIME CONSTRUCTION WAS PHASED IN GRADUALLY.
  - NADES ASSUMED NO MORE THAN 66 YARDS WOULD BE AVAILABLE, AND MANPOWER SUPPLY WAS CONSTRAINED.

  THE ANALYSIS WAS CONDUCTED ONLY OUT TO THE NINTH MONTH OF MOBILIZATION (8TH MONTH OF CONFLICT).

RESOURCE REQUIREMENTS

- 60 TO 70 PUBLIC AND PRIVATE YARDS AS POSTULATED IN NADES
- RESOURCES DISTRIBUTED AS FOLLOWS:

AREA	INITIAL WORKERS	YARDS	MARINE RAILWAYS & SYNCHROLIFTS	WAYS AND LAND-LEVEL POSTIONS	FLOATING DRYDOCKS	GRAVING DOCKS
EAST COAST	87,500	29	4	24	27	35
GULF COAST	19,500	9	0	11	11	1
WEST COAST	30,300	19	1	8	18	24
HAWAII	3,500	3	1	0	2	4
GREAT LAKES	1,200	4	1	6	0	1
	142,000	64	7	49	58	65

- ALLIES CONTRIBUTE FAIR SHARE FOR REPAIR AND MAINTENANCE
- FORWARD NAVAL REPAIR FACILITIES AVAILABLE
- PUBLIC YARDS RETAIN CONTINGENCY CONSTRUCTION CAPABILITY
- ABILITY TO EXPAND WORFORCE BY 14,600 WITHIN 8 MONTHS (MOSTLY IN NSY)

RESOURCE REQUIREMENTS

WE NOW FEEL THAT AN EXISTING SET OF ABOUT 60-70 CAPABLE YARDS, WITH THE FACILITIES AS LISTED IN THE NADES STUDY, IS SUFFICIENT TO ACCOMPLISH EARLY MOBILIZATION TASKS (TO ABOUT 9 MONTHS). IF THE MANPOWER IS AVAILABLE, ABOUT 30 MORE SERIES PRODUCTION POSITIONS WOULD BE REQUIRED TO EXECUTE THE SYMBA WARTIME BUILDING PLAN AFTER THE NINE MONTH POINT.

THE CAVEATS LISTED AT THE BOTTOM OF THE SLIDE ARE VERY IMPORTANT IN ARRIVING AT OUR CONCLUSIONS, PARTICULARLY THE ONE CONCERNING THE ABILITY TO ADD WORKERS IN THE CORRECT SKILL MIX TO YARDS EXPERIENCING HEAVY MOBILIZATION DEMANDS.

THE MINIMUM REQUIREMENT RESULTS IF WORKERS MOVE AMONG ALL YARDS AS REQUIRED. 14,600 TOTAL MUST BE ADDED, OVER 12,000 IN THE NAVAL SHIPYARDS.

IN THE FIRST QUARTER AFTER PEARL HARBOR IN WORLD WAR II, U.S. SHIPYARDS ADDED ABOUT 200,000 WORKERS.

PRIVATE YARD CAPABILITIES REQUIRED

			NAVY (1)			RESERVE				
REGION	MERCHANT	MSC	COMPLEX	MOD COMPLEX	NON COMPLEX	ISHAC	RRF	NDRF	USCG	YARDS
NORTHEAST	S B	M	C M	M	M C	-	A	A	M	7
MID-ATLAINTIC	S M B	M A	C M B	M	M C	A	A	A	M C	11
SOUTHEAST	S M B	-	M	M	M	-	A	A	M	6
GULF	S M B	A C	C M	M	C	A	A	A	M	9
NORTHWEST	S M	M	-	-	M C	-	A	A	M	5
N. CALIFORNIA	S B	M	M	M	M	A	A	A	M	5
S. CALIFORNIA	S M B	M	M	M	M C	A	A	A	M	6
GREAT LAKES	-	-	-	-	C	-	-	-	M	4
HAWAII	S	-	-	-	M	-	-	-	M	2

(1) SECNAV INST. 4860.42C CLASSIFICATIONS

Codes: A - activate, B - battle damage, M - maintenance, S - sealift enhancement modifications, C - construction/conversion.

PRIVATE YARD CAPABILITIES

THIS SLIDE SHOWS THE REGIONAL DISTRIBUTION OF CAPABILITIES REQUIRED IN THE PRIVATE SECTOR - WHERE THE NAVAL SHIPYARDS ARE FULLY LOADED WITH COMPLEX SHIP OVERHAULS AND BATTLE DAMAGE REPAIR (COMPLEX SHIPS ARE CARRIERS, SUBMARINES, CRUISERS, LARGE AMPHIBS, SOME FLEET SUPPORT SHIPS). LET ME ADD, HOWEVER, THAT THE NADES STUDY WAS NOT CHARGED TO DETERMINE THE OPTIMUM LOCATIONS. WE WERE INFLUENCED BY 1) LOCATIONS OF NAVY BASES AND HOME PORTS, 2) LOCATIONS OF PORTS OF EMBARKATION, AND 3) THE TRENDS IN AWARDING NEW SHIP CONTRACTS COMPETITIVELY TO THE MOST EFFICIENT YARDS. THEREFOR, THESE RESULTS SHOULD BE VIEWED AS GUIDELINES ONLY.

OF THE 55 YARDS ASSIGNED MOBILIZATION TASKS:

- 12 YARDS WERE PROJECTED TO BE ENGAGED IN NAVY OR COAST GUARD SHIPBUILDING (E-5, G-2, W-3, GL-2).
- 40 YARDS WERE USED FOR ACTIVATIONS (E-19, G-9, W-12).
- 46 YARDS WERE ENGAGED IN OVERHAUL AND REPAIR (31-NAVY, 15 MSC/USCG ONLY).

MAXIMUM PRODUCTION WORKERS ACCESSION REQUIREMENTS

	PRIVATE	PUBLIC
● NADES MINIMUM INCREASE	5,073	12,426
● NADES MAXIMUM INCREASE	34,104	17,319
EAST COAST	18,685	10,179
GULF COAST	6,522	—
WEST COAST	8,691	4,773
HAWAII	37	2,367
GREAT LAKES	169	—

SOURCE: NADES STUDY DATA BASE

ASSUMPTIONS: YARDS BUILDING TO A PEAK EMPLOYMENT DO NOT LAY OFF OR TRANSFER WORKERS

MAXIMUM PRODUCTION WORKERS REQUIRED

THE NADES REQUIREMENTS ARE MINIMUM REQUIREMENTS WHICH ASSUME THE ABILITY TO MOVE WORKERS FREELY WITHIN AND AMONG YARDS AND REGIONS IN ORDER TO MATCH THE WORKLOAD - SUBJECT ONLY TO THE LIMITS ON WORKFORCE EXPANSION RATES. IF THIS ASSUMPTION IS INVALID BECAUSE OF PROBLEMS INVOLVING INFORMATION, COMMUNICATION, TRANSPORTATION, OR WORKFORCE INTEGRITY, ACTUAL REQUIREMENTS COULD BE AS HIGH AS SHOWN HERE.

THE MINIMUM FIGURES HERE RESULT FROM ASSUMING THAT WORKERS DO NOT MOVE BETWEEN PUBLIC AND PRIVATE YARDS, BUT FREELY FOLLOW THE WORKLOAD IN THE SECTOR WHERE ORIGINALLY HIRED.

THE MAXIMUM REQUIREMENT FIGURES WERE DERIVED BY ADDING TOGETHER ALL THE PEAK EMPLOYMENT DATA FOR EACH OF THE YARDS, ASSUMING NO MOBILITY AMONG YARDS.

SUMMARY RECOMMENDATIONS

- EVALUATE NEED FOR A YARD AT EACH POE
- STUDY RRF BREAKOUT AND TOWING PARAMETERS
- ASSESS ABILITY OF NATIONAL WORK FORCE TO PRODUCE REQUIRED WORKERS
- ASSESS VALIDITY OF BATTLE DAMAGE REPAIR ASSUMPTIONS

SUMMARY RECOMMENDATIONS

THESE ADDITIONAL TASKS WERE DERIVED FROM THE ANALYTICAL PROCESS I HAVE BRIEFED TODAY.

- SEVERAL EMBARKATION PORTS THAT COULD BE USED IN A FULL MOBILIZATION WERE NOT ASSUMED TO HAVE VIABLE YARDS (NORTH CAROLINA POEs AND PORT HUENEME, CA).
- THE STRATEGIC SEALIFT DIVISION OF OPNAV AND THE MARITIME ADMINISTRATION CONSIDER BREAKOUT TIMES AND TOWING ASSETS WHEN ASSIGNING RRF OUTPORTS AND SETTING CONFIGURATIONS FOR LAYUP SITES.
- MY OFFICE AND MARAD's OFFICE OF PRODUCTION ARE ENGAGED IN DIALOGS WITH THE BUREAU OF LABOR STATISTICS IN ORDER TO INCREASE OUR UNDERSTANDING OF LABOR AVAILABILITY.
- NAVSEA IS EVALUATING A NEW METHOD OF PROJECTING BATTLE DAMAGE REPAIR REQUIREMENTS.

OVERALL CONCLUSIONS

- SHIPBUILDING AND SHIP REPAIR BASE IS CONTRACTING IN SIZE
- ADEQUATE CAPABILITY AND CAPACITY IS PROJECTED TO EXIST
  - NAVY WORK ALONE CANNOT SUSTAIN THE REQUIRED BASE
  - INTERRUPTING LOW PRIORITY WORK CAN PARTIALLY SUBSTITUTE FOR ADDITIONAL MANPOWER
- LITTLE INTERVENTION BY GOVERNMENT REQUIRED THROUGH 1990

CONCLUSIONS

IT IS NO SECRET THAT THE DOMESTIC SHIPBUILDING AND REPAIR INDUSTRY IS CONTRACTING AS HIGHER COSTS DRIVE COMMERCIAL ORDER BOOKS AND REPAIR OVERSEAS. NAVY WORK HAS TAKEN UP MUCH OF THE SLACK, BUT PRIMARILY IN THE MORE QUALIFIED YARDS.

IN OCTOBER 1984, 95 MOBILIZATION-CAPABLE PRIVATE YARDS REMAINED OPEN. EVEN IF THE TWO-YEAR TREND FROM 1982 CONTINUES, HOWEVER, ADEQUATE CAPABILITY SHOULD REMAIN OUT TO 1990 IF EVEN NGDEST COMMERCIAL WORK CAN BE RETAINED. IF THE AVAILABLE MANPOWER SHOULD FALL BELOW OUR PROJECTIONS, ADDITIONAL DELAYS SHOULD BE EXPECTED IN COMPLETING ALL MOBILIZATION WORK.

AT THE MOMENT, WE SEE NO REQUIREMENT FOR GOVERNMENT INTERVENTION IN THE INDUSTRY, BEYOND ENSURING ADEQUATE MAINTENANCE AND REPAIR FACILITIES ARE AVAILABLE FOR OUR COMBATANTS.

THIS COMPLETES THE BRIEFING. I WILL BE HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.

Senator COHEN. Mr. Alderman, let me ask you to clarify again. S. 535 declares that the President, and I assume also the Secretary of the Navy, is violating the law. What is your interpretation of that section?

Mr. ALDERMAN. Mr. Chairman, which?

Senator COHEN. Title 10, section 7302.

Mr. ALDERMAN. Our interpretation of that section is almost precisely as the CRS interpreted it for you. I did this in the margin, that as long as the totality of the mobilization base is sufficient to support our mobilization plans and wartime plans, then there is no requirement that we construct new combatants on the west coast. That law requires that we construct such, that we maintain such construction facilities there when it is essential to our overall mobilization base.

Senator COHEN. Mr. Pyatt, do you believe you can even have some reduction in current shipbuilding capacity in this country and still meet our mobilization needs?

Mr. PYATT. Yes; although there comes a point when you are uncomfortable. We tried to define that a little bit in the study that was attached to my testimony. It is a very difficult judgment to make.

Right now the only tools I have to work with are our peacetime program. We build about 20 ships a year and we have a repair budget for the existing fleet. We have to do our work in the most efficient and competitive manner in order to squeeze it all into the budget that we have.

Senator COHEN. Did you indicate that the Navy's experience with the FFG–7 program was that ships built on the east coast cost between 30 and 40 percent less than those constructed on the west coast?

Mr. PYATT. The shipbuilding portion. All ships had substantially the same combat systems that came from the same manufacturer.

Senator COHEN. It only pertained to the shipbuilding portion itself?

Mr. PYATT. Yes; when you add it all together, there is about a 15 percent differential overall.

Senator COHEN. One of the arguments offered today in this discussion of new construction contracts for combatants is that if we preserved the shipbuilding capacity in a certain geographic area, it would not cost more than 4 percent.

The question is: If you assign ships to less competitive yards, does that reduce the number of ships built in the lower cost yards?

Mr. PYATT. We have a constant amount of money. If we assign more expensive work someplace else, we have to give up something else: it may be ships, and it may be missiles.

Senator COHEN. What does that do to the other yards' rates and productivity?

Mr. PYATT. It depends on the particular circumstances. As a general principle within an operating range, additional work increases productivity and efficiency of utilization of overhead cost.

Senator COHEN. One of the main arguments we have had all along for that 600–ship Navy request and goal is that you can increase your production rate if you have more ships. There has to be

a corollary. If you have one ship in a yard instead of two, then your efficiency goes down and costs go up.

Mr. PYATT. When we receive bids every year—and we often have them priced in various multiples so you can award some to one yard and some to another—we invariably pay a unit cost differential to award one yard a smaller quantity than another yard.

Senator COHEN. So the additional cost is not just the 4-percent increase in allocating ships to one yard?

You have that 4 percent plus whatever you lose in the other yards' productivity?

Mr. PYATT. Yes; and I would never expect to see bids separated by only 4 percent.

Senator COHEN. For competition you have to have at least two shipyards.

Is it desirable to have three, four, or five shipyards for a particular line of ships?

Mr. PYATT. It depends on how many ships you are building and the cost of facilities of tooling it to get into the business. In looking at a ship program as large as the FFG Program was, I think the split into three yards made a lot of sense. When you get down to talking about two or three ships a year, three yards does not make any sense.

Senator COHEN. In the past you talked about the Navy's plans to bring on a third source for the DDG–51 destroyer.

In the latest 5-year shipbuilding plan the construction rate falls from five to three. The total number of destroyers built during 1987 to 1990 is reduced by five.

What impact will this have on your decision about a third shipyard?

Mr. PYATT. We look at the DDG's and CG's as a total group of ships that you can award in a given year. We believe that within that group, three yards would make sense. I continue to believe that even at the lower rate we are talking about.

Senator COHEN. What is the minimum annual production rate to justify a third source?

Mr. PYATT. Five or six.

Senator COHEN. Between five and six?

Mr. PYATT. I think so. There is a lot of judgment that goes into picking a number, but I think it is within that range.

Senator COHEN. One of the unfortunate but inevitable byproducts of competition is an occasional failure.

The question I have is: How does the Navy protect the taxpayer against getting stuck with a half finished ship if that shipbuilder should go under?

Mr. PYATT. You are a lawyer, I am just an engineer. You know it is a very tough task. You get into bankruptcy court. There is more than one player involved. You try to negotiate your way out as best you can.

Senator COHEN. I am wondering in awarding contracts, do you try to protect yourself against the so-called binds when you make those contract awards?

Mr. PYATT. During the last year we were faced with one contract where the shipyard gave us a very low bid, but they also seemed quite qualified and had a lot of possibilities for producing at that

price. We extracted most of the family jewels in support of the Navy shipbuilding program. We can do that kind of thing.

Senator COHEN. I have just a couple other questions.

Mr. Pyatt, there has been an argument going on for quite a few years concerning the availability of effective U.S.-controlled fleet.

Are these ships considered in your contingency plans for wartime sealift?

Mr. PYATT. Yes, they are.

Senator COHEN. How prudent do you think it is to assume that ships may be built by countries where they are registered; namely, in Panama, Liberia, Honduras? How safe an assumption is that?

Mr. PYATT. All those countries have an agreement with the United States to provide the ships in the event of war and I believe it has been exercised in the past.

Most of the ships are used to support the economic demands of the United States and not military requirements.

Senator COHEN. You are using them in your contingency plans for wartime sealift?

Mr. PYATT. But very few. They are in there, but the ones that are useful in sealift are very few in number. Most are tankers.

Senator COHEN. What about their crews? Are they foreign crews?

Mr. PYATT. Yes, foreign nationals, many NATO members.

Senator COHEN. Do we have any plans to try to reduce our reliance on these ships in the future?

Mr. PYATT. No, I do not know of any. There would be more in the merchant marine side of the executive branch activity, but I do not know of any.

Senator COHEN. Let me ask you three questions that Senator Wilson has asked me to submit to you.

My Pyatt, what are the Navy's major considerations in awarding a shipbuilding contract?

Are past performance, quality, financial responsibility, cost realism, and the objective of a balanced shipbuilding mobilization base less important or equally as important as price?

Mr. PYATT. I have testified before this subcommittee many times and I am not going to change my testimony now that our sole criterion is price.

Senator COHEN. That is the sole criterion?

Mr. PYATT. Yes, sir. Shipbuilders who bid on ships that are all qualified shipbuilders and are capable of producing the ships.

Senator COHEN. Senator Wilson had a question about the SLEP Program. He asks:

According to a recent AIRPAC study, west coast overhauls and repairs would be more cost effective.

Is it not true that the Navy can reprogram work to the Philadelphia yard from overloaded yards such as Norfolk and Charleston, to avoid a shutdown in the event of carriers being overhauled and repaired on the west coast?

If this is indeed true, then should not competition, a chief Navy objective, be extended to carriers?

Mr. PYATT. I got lost. The competition between whom?

Senator COHEN. According to the AIRPAC study, west coast overhaul and repairs would be more cost effective. He says: Is it not true that the Navy can reprogram work to the Philadelphia yard

from overloaded yards such as those in Norfolk and Charleston, to avoid a shutdown in the event of carriers being overhauled and repaired on the west coast?

Mr. PYATT. You can always juggle things around. The question is the overhaul impact.

In answering the various questions on SLEP before going on to the west coast——

Senator COHEN. I think he is saying "is price the sole factor and determining factor?" And also that the AIRPAC study shows it is more cost effective to do it on the west coast.

Also, as far as the SLEP Program for aircraft carriers, couldn't you shuffle some other ships around to the Philadelphia yard rather than taking them from the west coast?

Mr. PYATT. You are giving credibility to the AIRPAC study that we have not given it.

Senator COHEN. Your statement is that you do not put much credibility in the AIRPAC study?

Mr. PYATT. No, sir.

Senator COHEN. Senator Exon?

Senator EXON. Mr. Chairman, thank you very much. I have two or three questions.

First, do you see any inconsistency between the Navy's stated goal of the expanding ports under the strategic homeporting concept on the one hand and contracting the shipyard base for new construction on the west coast?

Mr. PYATT. It appears inconsistent to me, but maybe it is not.

Senator EXON. Twenty percent of the ships in the Atlantic Fleet were built on the west coast. Clearly, we can move ships around the world. But when you have a distributed homeport structure, there will need to be a ship repair structure close to it that supports it.

I put very little correlation between where warships are built and where they actually wind up in operations.

How much additional time does it take, Mr. Pyatt, to go around South America as opposed to going through the canal? Is this an important factor to consider?

Mr. PYATT. Sir, I buy ships. I do not run them. I will have to furnish that for the record.

Mr. ALDERMAN. I will have to furnish that for the record.

Mr. PYATT. Some back there say a couple more weeks. It is quite a way, yes.

Senator EXON. One last question in this regard.

Is it the administration's view that whatever strategic surge capability required for a long war could still be adequately met if private yards on the west coast had only a repair capability?

Also, why is the administration talking about closing down some of the public yards such as the naval facilities in Philadelphia and cutting back the workforce there if we will be relying more or totally on east coast shipyards for construction?

Can we afford to both cut back in the east coast public yards while our new construction west coast capability is severely eroded, and still maintain the minimum as far as national security is concerned?

Mr. PYATT. Clearly people employed are the direct result of appropriations provided to take care of the existing fleet. We do not have authority to do anything in excess.

So, the cutbacks that you have described are occurring. They are occurring as a result of our extending the time between overhauls because we are buying better equipment and we do not need to put them in the shipyards so often. That is correct.

It is also occurring that much of the commercial business that these shipyards used to have has disappeared to other shores and there is no commercial construction—that is not true—there are only a couple building ships under commercial construction in the United States.

We are simply doing the best we can within the resources that we have. Our studies show, and I am very careful about waving studies, I have done a lot of them and I do not fully believe all of them, because they do have a degree of simplification, we believe that we could mobilize the IRF ships, take care of evacuations of military ships and this kind of work within the structure that we have in the repair work.

We are most extensive about maintenance of the repair capability because that directly influences the efficiency with which you can use the assets you start a war with.

Senator EXON. Mr. Pyatt, were you here earlier when we saw some of the charts regarding the distribution of construction work.

Mr. PYATT. I did not see those charts, but I am familiar with the structure of the work.

Senator EXON. I got the impression that since we are not building now, and are not likely to build in the future, any significant number of ships on the west coast in the private sector that we are going to see an eventual demise of all shipbuilding on the west coast?

Mr. PYATT. I do not agree with that. Let me recount what has happened in the Pacific Northwest in terms of repair capability in the last year.

We had a very pointed debate with Pacific Northwest about the expense of taking care of ships. It was fueled by the southern California contingent. It was the case that Northwest was too expensive. We made this case to the shipyard managers of the Northwest and they did what they had to do to improve their efficiency and to work with their unions to reach an accommodation.

They did and they won, they have won two or three major contracts since then. I believe that the flexibility, the ingenuity of American managers and labor can rebalance the situation. They have to settle down and do it.

Senator EXON. I guess what you are saying is that if we deliberately involve ourselves in the distribution of shipbuilding we would interrupt the healing process that has to take place to make them competitive?

Mr. PYATT. Absolutely.

Senator EXON. This whole subject is very intriguing and I think very important from the perspective of national security.

I want to thank you for coming over to testify. I think we have a serious problem that is very more important from a strategic perspective.

This hearing this morning has confirmed that, right or wrong or indifferent, we can build ships, except for combatants a whole lot cheaper overseas than we can build them here.

This illustrates the difficulties we are having, not only in shipbuilding, but also in textiles, shoes from Maine and elsewhere, and agricultural products from States like Nebraska.

I think we are in for a major fall in the United States in the future unless we can somehow rekindle our basic industries of which shipbuilding has long been one.

I think this is one of the most serious economic realities we have to face. Yet, by and large, I hear the administration running around today talking free trade, free trade, free trade.

What that means is unless we can come up with some ingenuous way of correcting it, the standard of living, not only in Seattle but Philadelphia and Omaha, Nebraska, will fall appreciably unless we can somehow turn around the cheap labor that is the major contributing factor in the flood of imports, including foreign-made ships.

This is a very, very serious problem. It is not limited to just the shipbuilding industry on the west coast.

Mr. PYATT. Yes, sir. I would just like to add to that that we are not talking about foreign-made combatants. Nobody in the world can make them any cheaper than we can. The Japanese tried and they made a real mess out of it.

What we are talking about is free trade within the United States. I think that is the important difference from your summary.

Senator EXON. You know, it seems to be getting down to the question of whether or not we will have adequate facilities to repair ships if we are involved in a major conflict.

Mr. PYATT. Yes, sir.

Senator EXON. Thank you, Mr. Pyatt.

Thank you, Mr. Chairman.

Senator COHEN. One final question. This is purely a hypothetical one and should be construed as any indication I believe this to be the case.

I, frankly, found some bright spots in the Todd situation, at least with Mr. Gilbride's indication they may have some opportunity in the foreign military sales field, which might boost their own prospects for the future. Let me give you the worst case scenario I can think of.

Suppose Todd were not to get the future shipbuilding contracts or repair contracts, suppose they were to go under: would that, in your judgment, seriously impact upon our mobilization capacity nationwide?

Mr. PYATT. It depends on what happens after going under. If they are reformed as a smaller company, doing ship repair work, that would satisfy a portion of our needs.

If the scenario that they have were taken out of this industry activity and they were made condos or something, we would not care for that at all.

Senator COHEN. You would like to see them continue in business?

Mr. PYATT. Yes, and we have been working with them to support their foreign activities. I think they will tell you we have been supportive.

Senator COHEN. I think Mr. Gilbride's message was if they are not getting enough business to survive, if they go under, then what are the consequences?

I think that is something we want to take into account.

Thank you very much, Mr. Pyatt, and Mr. Alderman. We appreciate your waiting a half hour for us.

The subcommittee stands adjourned.

[The statement of Congressman Badham and the statement of the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers, AFL-CIO, follow:]

PREPARED STATEMENT OF CONGRESSMAN ROBERT E. BADHAM

Mr. Chairman, as evidenced by our presence here today, there is a great deal of concern about the health of the West Coast shipbuilding industry. This concern is of special importance because of the apparent lack of compliance by the Navy with Section 7302 of Title 10 of the U.S. Code (10 U.S.C. 7302). Section 7302 states that "The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense." Since the Navy no longer constructs ships in public yards, this clearly requires the Navy to build ships in the private shipyards of the active shipbuilding base on the West Coast.

Specifically, Lockheed Ship Builders (Seattle), Tacoma Boat (Tacoma, Wash.), Todd Pacific (Seattle), Todd Pacific (Los Angeles), and NASSCO (San Diego). However, as Todd Seattle is presently only engaged in overhaul and repair work and as Tacoma Boat filed for protection under Chapter 11 of the U.S. bankruptcy law on September 23, 1985, only three yards can be said to make up the active shipbuilding base of the West Coast. Of these yards, only two are currently constructing naval combatants: LSD's by Lockheed, and FFG-7's by Todd Los Angeles. This fact should be seriously disturbing. In the event of an emergency, it would be necessary to rely on these two yards for repair and overhaul work, in addition to vital new construction of warships. The closure of either of these two yards would be crippling to any surge capability.

In addition, as the Navy has indicated a desire to spread its naval combatants and auxiliaries to many ports to prevent another "Pearl Harbor" style disaster, isn't it counterproductive to allow the concentration of our shipbuilding resources into a handful of yards? The neutralization of Todd Los Angeles would eliminate the single yard currently capable of constructing major surface warships on the West Coast. Establishing new construction capability in other yards would take years and eat up scarce resources. Skilled manpower is particularly scarce and this situation would be exacerbated in a crisis by the demand of repair yards. It is estimated that training a skilled shipyard worker takes five years. Can we afford to risk disaster by not ensuring a capability to meet the long-term demands of a multi-ocean war?

It should be clear to any navy, and as most recently demonstrated to the whole world during the Falklands War, that ships get destroyed in combat. Those ships which are sunk must be replaced, and replaced quickly. Indeed, new construction must not only take into account ships sunk, but must also provide additional combatants to enable the Navy to carry out its mission of securing control of the seas. However, even with the present 600-ship goal, the Navy may not meet its requirements for major surface combatants. This factor, coupled with certain losses, makes the maintenance of a shipbuilding capability on the West Coast of paramount concern.

Arguing that ship repair capabilities alone would sustain our naval forces is naive, if not completely foolhardy and reckless. Naval history itself should make that conclusion crystal clear: in the Second World War it took nearly two years before new construction was available to help turn the tide in the Pacific, and that was accomplished with a larger shipbuilding base that began a comprehensive building program a year and a half before the outbreak of the war. Japan, which had a much inferior shipbuilding base, was incapable of maintaining a repair and overhaul program in conjunction with new construction.

It is imperative then that we examine the long-term costs that will be incurred by the closure of West Coast shipyards. Only three yards in the Nation are currently capable of constructing AEGIS cruisers and destroyers, only two can build nuclear submarines, and only one can build nuclear aircraft carriers. Of those yards, only one is on the West Coast, and it is in the untenable position of seeing no new contracts for new construction after its current building program ends in 1988. Should this yard close, I find it difficult to believe that we will have enhanced competition, let alone contributed to our national security.

Competition based solely on construction cost does not allow for the development of a comprehensive strategy to meet the demands of a high-intensity conflict of long duration. Indeed, building a Navy does not merely mean building hulls, but also building an infrastructure to maintain and augment the fleet. The great shipyards of Athens and Venice were capable of quickly rebuilding entire fleets when disaster struck, and America was able to do so during the Second World War. Will we be able to do so again if necessary?

PREPARED STATEMENT OF THE INTERNATIONAL BROTHERHOOD OF BOILERMARKERS, IRON SHIP BUILDERS, BLACKSMITHS, FORGERS & HELPERS, AFL-CIO, BEFORE THE U.S. SENATE SUBCOMMITTEE OF THE COMMITTEE OF ARMED SERVICES, SEA POWER AND FORCED PROJECTION REGARDING WEST COAST SHIPBUILDING AND REPAIR

Mr. Chairman, the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers wishes to thank the sub-committee for allowing written presentation of our views for the record.

This organization opposes any effort by the Navy to destroy the West Coast shipbuilding by its short sighted policy of using only low bid to determine which shipyard will be awarded Naval contracts.

Today we have approximately 5,000 members who are employed in the shipyards on the West Coast. This organization, through its officers and members, knows well what effect the Navy's policies have on the shipyards and the workers employed by them. During the last four years we have lost over 1,000 members from the West Coast shipyards, and there are reports that the West Coast has lost at least 8,000 shipyard jobs in the last three years because of the lack of work. Workers who cannot be easily replaced. It is generally accepted that each shipyard job creates three jobs in related supply and service sectors. That would mean an additional 24,000 jobs have been lost.

The Department of Defense is wisely pushing forward with plans for a 600 ship Navy. This will require the construction of about 20 ships per year based on an average of 30 years life expectancy of the ships. The Congressional Budget Office has reported that over the next 15 years 283 billion dollars will be spent to obtain and modernize a Naval fleet of 600 ships.

Under the present DOD policy it is conceivable that all of that work will go to East and Gulf Coast shipbuilders. In 1984, 74% of all new construction of naval vessels took place on the East Coast, while the Gulf Coast received 21% of the new construction work, the West Coast only received 4%.

With regards to the overhaul and repair work, the East Coast received 67% of the Navy's overhaul and repair, while the West Coast private shipyards received approxmately 21%.

It is clear that the shipyard industrial base cannot be maintained with the allocation of new construction, overhaul and repair work on the West Coast. There is not a sufficient steady workload to keep the shipyards productive or profitable.

On August 10, 1956 Congress passed an amendment to Title 10 of the U.S. Code, Section 7302, it reads:

The Department of the Navy shall have constructed on the Pacific Coast of the United States such vessels as the President determines necessary to maintain shipyard facilities there adequate to meet the requirements of national defense.

This mandate is not being implemented at the present time. If this provision continues to be disregarded it is conceivable that virtually all full-service shipyards on the West Coast could be eliminated by the end of this decade.

Here are some of the reasons that this scenario could occur:

1. Commercial ship construction and repair is at an all time low. Shipyards are desperately short of work and many are near bankruptcy, filed for bankruptcy or closed.

2. Current government policy, through the Maritime Administration, has eliminated construction differential subsidies and will use operating differential subsidies

to actually promote the construction of ships for the U.S. Merchant Fleet in foreign shipyards. Jones Act protection is in jeopardy and is very likely to disappear.

3. The few healthy yards remaining are engaged in naval construction and repair but, as Vice Admiral Joseph Metcalf, Deputy Chief of Naval Operations (Surface Warfare), recently said: "The Navy simply cannot generate the work required either in repair, new construction or conversion to maintain the existing industrial base in any condition of profitability. We are almost the only game in town but we are by no means a large enough game to support so many players."

The industrial base that Admiral Metcalf referred to is currently comprised of 23 shipyards nationwide, not all have work today and only five are located on the West Coast. Obviously, any further shakeout on the West Coast would be a severe blow to the national security interests of the United States and to the Pacific region.

In the summer of 1984, a Supervisor of Shipbuilding for the Navy, who was also in charge of Navy repair contracts in the Northwest, was quoted by the press as saying that unless shipyards out here [on the West Coast] got their wage costs more in line with Eastern competitors, they could not expect to get any more work. This apparently reflected the Navy's "low bid" procurement policy which has resulted in the overwhelming majority of new construction contracts being awarded to East and Gulf Coast operations. For example, the two major competitors for frigate/destroyer/cruiser type ships, one of which is on the East Coast, the other on the Gulf Coast, will share an estimated $11 billion of ongoing work during the next five years, including 27 Aegis cruisers (CG47) and several Aegis destroyers (DDG 51), whereas the opportunities available to all five West Coast mobilization base shipyards are a small fraction of that amount during the same period.

According to the Secretary of Navy, the principal deterrent to the award of combatant ship construction contracts to West Coast shipyards is cost. In his testimony before the Senate and House Armed Services Committees in February of this year, he cited the wage differential between the West Coast and the other coasts as the problem.

Those of us that were a part of the shipyard industry during the 60's and 70's know of the problems that were caused by awarding a contract on the basis of low bid. "Low balling" bids was commonplace. The Navy spent over ten years in litigation with the contractors. The litigation itself was expensive. I doubt that the Navy ever stopped to add the legal expenses to the price they paid for the ships, but it had to be substantial. The Navy, in the end, still had to pay the contractors billions of dollars in cost over runs.

Before the Senate Committee Secretary of Navy Lehman said, ". . . That [Wage] differential is beginning to narrow but it runs as high as $3.00 per hour in extreme cases. That makes building a given combatant, as a generalization, much more expensive to build on the West Coast." We can not dispute a wage differential between the coasts. However, the impact of that differential on the overall acquisition cost of a cruiser or destroyer is arguable, particularly in the case of follow-on ships. According to Navy budgetary standards, basic construction should consume about 35 percent of the total acquisition cost of a gas turbine propelled combatant ship. Of this, approximately 33 percent is for direct labor, therefore, direct labor accounts for about 11.5 percent of the total cost of acquisition. From this, it follows that the three dollar differential (30 percent) will result in less than a 3.5 percent premium for a ship. In fact, given the equivalent manning level of the principal competitors for cruiser and destroyer contracts on the East and Gulf Coasts, the differential would disappear altogether and the lower resultant overhead and increased productivity would result in a net saving in the total acquisition cost.

An October 1984 Maritime Administration report estimated West Coast shipbuilding costs to be 4.6% higher than the East Coast and 9.2% higher than in the Gulf. We wonder what the real difference in defense costs will be when the initial savings by low bid, or "low balling" procurement have been realized. We don't feel that the cost difference is worth risking losing the West Coast private shipyard capability to build and support the Pacific Fleet, plus the U.S. Merchant Fleet and ships owned by nations of the Pacific Basin, our number one trading area.

When you break down the costs of Naval shipbuilding, about two thirds of the value of Naval Ship construction is contributed by the shipyards' suppliers. Only one third is due to shipyard costs, training, wages, benefits, profits, facility maintenance and upkeep, acquisition of new equipment and plant modernization.

In order to reduce costs, a shipyard could use equipment that meets the marginal standards rather than using equipment that is the best that is available. It does the Navy no service to have a ship develop problems 3,000 miles from homeport, or to have it breakdown during an emergency mission. We sincerely hope this will not be

the case. However, if the shipyard must be lowest bidder to get the contract it might consider using marginal equipment.

Other costs may be higher or lower, depending on the region, and electricity, water, taxes, gas, and oil are generally out of the control of the shipyards and have an impact of the overall cost of the bid.

The Navy's policies run against their own best interests. If a shipyard spends millions of dollars to bring in new equipment, or constructs new buildings to increase productivity, those expenditures must be justified by showing some promise of available work. Without the work they cannot modernize their plants to compete with the relatively modern subsidized facilities of some foreign shipyards, which the Navy keeps pointing to as model facilities.

On the West Coast, Tacoma Boat is near closing; Lockheed Shipbuilding is considering closing; Todd shipyard is in need of work to keep their shipyards open; Marine Power has little hope of keeping its' doors open; and with only 4% of the Naval shipbuilding and 29% of the overhaul and repair contracts being awarded to West Coast yards in 1984, you will find the shipyards begin to close; partly due to the Navy policies and partly due to the Reagan Administration policies of supporting foreign construction and repair of commercial ships and allowing them to still fly the United States flag. These items affect shipyard managements ability to manage. It is near impossible to manage effectively and efficiently with wildly fluctuating unpredictable workloads.

Congress did learn a lesson from World Wars I and II and from the military action in Korea. It was necessary to have modern shipyard facilities available to provide essential services in time of national emergencies. In 1959 Congress had the wisdom to amend Title 10 of the U.S. Code, Section 7302, to provide for sufficient work to Pacific Coast shipyards to keep adequate facilities to meet the national defense needs.

As the country relies on private shipyards for the construction, repair and overhaul of the 600 ship fleet, so the shipyards must rely on the Navy to provide them with sufficient work on complex warships to remain economically viable, as well as technically competent. This is particularly true at the moment when the high value of the dollar, and political positioning, has driven the bulk of commercial work overseas to areas of cheap labor and heavily subsidized industries.

Years of training for the workers, testing of equipment and setting proper work processes and procedures, lining up suppliers and acquiring good marine engineers; these things cannot be done on short notice and cannot wait for some unforeseen national emergency to happen. To be sure, no potential enemy of this Nation is going to wait for us to build the capacity. Either we are ready or we get our socks knocked off.

Another factor that bears examination is the learning curve problem. In shipbuilding, as in any complex manufacturing process where relatively small numbers are involved, there is a substantial saving in manhours needed to build the second, third and subsequent ships in a given class. Therefore, in a competitive procurement there is a strong economic bias in favor of the shipbuilders with experience in that class, or a similar class, which distorts the fairness of the evaluation process.

[A letter from Mr. John Flipse, chairman, National Advisory Committee on Oceans and Atmosphere, follows:]

NATIONAL ADVISORY COMMITTEE
ON
OCEANS AND ATMOSPHERE
3300 Whitehaven Street, N.W.
Washington, D.C. 20235

118A

November 8, 1985

The Honorable William S. Cohen
Chairman, Subcommittee on Sea Power
and Force Projection
Committee on Armed Services
322 SHOB
Washington, D.C. 20510

Dear Senator Cohen:

It was an honor and a pleasure to appear before the Subcommittee on Sea Power and Force Projection on October 24 to present the views of the National Advisory Committee on Oceans and Atmosphere (NACOA) on "Shipping, Shipyards and Sealift: Issues of National Security and Federal Support."

Enclosed are answers to the following questions, which you requested at the hearing:

1. Has the report been reviewed by anyone outside NACOA? For example, has the report in its final form been reviewed by the Department of Defense, the National Security Council or by industry groups? Please submit for the record any written comments by defense agencies.

2. NACOA espouses important conclusions and recommendations which affect the nation's security. Please submit for the record the comments you have received from commentators. In particular, I am interested in testimony, statements on the record and the comments from experts relating to the conclusions regarding the shipyard mobilization base.

Throughout the course of our review leading to our report, two drafts were given wide circulation for comments. We analyzed these comments carefully in as objective a manner as possible. Many of the reviewers were also given an opportunity to address the Committee in person. As a result, NACOA has extensive and detailed comments on our conclusions and recommendations. In answering the above questions, we have chosen to supply the comments to each conclusion and recommendation. Further, to continue our objective manner of reviewing comments, we have set out the reviewers' comments in the order in which we received them, i.e., according to the date received.

I hope that this response to your followup questions will meet with your satisfaction. If for any reason you need more information on these questions or you have more questions, please do not hesitate to contact either me or the staff.

Again, on behalf of NACOA, we appreciated the opportunity to present our views to your Subcommittee.

Sincerely,

John E. Flipse
Chairman

Enclosure

NATIONAL ADVISORY COMMITTEE
ON
OCEANS AND ATMOSPHERE
3300 Whitehaven Street, N.W.
Washington, DC 20235

REVIEWER'S COMMENTS

to the

April 1985 draft, June 1985 draft, and Final version

of the

NATIONAL ADVISORY COMMITTEE ON OCEANS AND ATMOSPHERE

Report

"Ships, Shipyards and Sealift:
Issues of National Security and Federal Support"

Submitted in response to the request of

Senator William S. Cohen, Chairman
Subcommittee on Sea Power and Force Projection
Committee on Armed Services
U.S. Senate

during the Subcommittee hearing of October 24, 1985
on Senate Bill 535.

November 8, 1985

GENERAL COMMENTS

1. Newport News Shipbuilding and Dry Dock Company
April 4, 1985

[NACOA report obviously based on NADES Study, of which Newport News Shipbuilding and Dry Dock Company not privy. NNSDDC privy to SYMBA study, however.]

We noted numerous exceptions to the underlying assumptions of the SYMBA study. We, therefore, conclude that the NADES study is equally flawed. If so, then the conclusions and recommendations of the NACOA report are based entirely on unsound data.

2. Shipbuilders Council of America
April 8, 1985

The Shipbuilders Council does not believe that the conclusions contained in the draft report are supported by the record before the Shipbuilding Panel. Also, the conclusions represent a misunderstanding of how the ship operating and shipbuilding markets function.

The draft report declares that the "effect of the recommendations" is "to increase the nation's merchant sealift assets" and "to increase the readiness of government-owned and commercial sealift assets." We question whether more than a handful of vessels will be added to the privately-owned U.S.-flag merchant fleet if they were fully implemented by the government.

3. National Steel and Shipbuilding Company
April 9, 1985

On careful reading, one cannot escape the impression that the pending draft of NACOA's report on "Shipbuilding, Shipyards and Sealift: Issues of National Security and and Federal Support" reflects a predilection to abandon the time-proven essentiality of a balanced shipyard infrastructure under sovereign jurisdiction for national security. Nor does it address the fundamental relationship between market opportunities and the maintenance of that infrastructure.

4. Council of American-Flag Ship Operators
April 10, 1985

From our review of the body of the report which contains the analysis and rationale from which your comments, conclusions and recommendations were derived, it is our general opinion that your facts are accurate, and your analysis sound. We have found some discrepancies and we do not entirely agree with some of the detailed rationale in all respects. These are minor differences and we are providing our detailed comments to you separately. In general, we find the conclusions and recommendations to be well supported by a foundation of fact and well reasoned analysis.

5. Congressional Budget Office
April, 10, 1985

The recommendations in this NACOA report [April 1985 Draft] if carried out would have the effect of reducing the U.S. shipbuilding industry to the nine public yards plus a similar number of major private yards, all specializing in Navy work. Remaining commercial activity would be in the small yards that currently exist largely apart from the direct influence of federal policy. The effect of recommendations regarding the ship operating industry would be to produce a commercial fleet of fewer but more modern ships. The ships in the fleet would be increasingly unsuited to military support purposes and the recommended deemphasis of the RRF would mean that mobilization for war would be slowed by the necessity to gather the commercial fleet from around the world; modify the ships with sea sheds, flat racks, etc; and insure that means to load and offload are available whereever the ships may go.

6. Westminster Ventures, Inc.
April 11, 1985

"NACOA's recommendtions are in some cases bold and perhaps controversial, but they are also logical." "I sincerely hope . . . that you will proceed, armed with the courage of your conviction, to publish the report essentially in its present form."

7. American Waterways Shipyard Conference
April 11, 1985

What this draft report is lamely attempting to do is solve the transoceanic sealift problem in part by tampering with the Jones Act and its "sanctity", as it is referred to by others. The draft report is suggesting a solution that will accomplish nothing to improve our transoceanic sealift capability and which would destroy our domestic marine transportation system.

This report should not proceed beyond the draft stage because of the numerous inaccuracies and misrepresentations contained therein.

8. Department of the Navy, E.E. Shoultz, Deputy Program Manager
Amphibious Warfare and Strategic Sealift Program.
April 15, 1985

The conclusions and recommendations presented are not based on analysis of the problem presented but rather a general consensus of individuals interviewed. Thus the conclusions and recommendations constitute a desired list of studies that should be undertaken to identify the cost/benefits that might accrue, and acceptance of those recommendations that impact current budget decisions will delay attainment of a military capability without assurance that a viable alternative exists.

9. Center for Naval Analysis
April 17, 1985

The report provides an excellent summary and review of the problems facing the maritime industry, and most of the policy recommendations are good starting points for further detailed analysis--especially quantitative analysis.

10. Department of the Navy, Captain R. W. Kesteloot
April 17, 1985

I have reviewed the draft response on Shipping, Shipyards, and Sealift: Issues of National Security and Federal Support. I find that, for the most part, I agree with your summary, conclusions and recommendations. I particularly agree that policies such as tax credits, loan guarantees, limited cargo preference, cabotage, and build-U.S. requirements, while perhaps the right solution in 1936, have not proven effective in the longer haul.

Your group is to be commended for the logic and completeness of the Draft Study.

11. Dr. A. N. Perakis, Department of Naval Architecture and Marine Engineering, University of Michigan
April 25, 1985

My overall impression from reading the report was very positive. Clearly, a lot of factfinding and thinking has gone in the presentation and the NACOA recommendations. However, my reaction may be biased in favor of the report, since the NACOA positions are much closer than those of the Administration and (especially) the Congress to what I believe should be done about the problem.

12. Todd, Pacific Shipyards Corporation, Seattle Division
April 25, 1985

The draft report entitled, "Shipping, Shipyards and Sealift: Issues of National Security and Federal Support" has seriously missed the mark in its conclusions and recommendations. If they are endorsed by the full committee and accepted by the Congress and/or the Administration, the American Merchant Marine and the shipbuilding industry will continue their serious decline.

13. Center for Strategic and International Studies, Paula J. Pettavino
April 30, 1985

The NACOA report is by far one of the most thoroughly researched, thoughtfully conceived and well-written studies in the maritime field today. I am most impressed by the Committee's courage in making recommendations that will certainly not be popular with large segments of the maritime community.

14. Department of the Navy, Office of the Assistant Secretary,
Captain Ralph V. Buck
October 29, 1985

I was quite pleased that most of our recommendations were accepted in producing your final report.

The report should stimulate most useful dialogue in the months ahead.

Conclusion 1

Under current defense scenarios, sealift requirements for the initial stages of a modern major conflict depend more on the sufficiency of U.S.-controlled shipping -- and on trained U.S. crews -- than on shipbuilding capacity. Shipyard facilities can be expanded for new shipbuilding during a prolonged conflict. National efforts should therefore emphasize developing a viable Federal and commercial sealift fleet in peacetime, rather than preserving excess shipbuilding capacity.

1. Congressional Budget Office
April 10, 1985

The statement that shipyard facilities can be expanded during a prolonged conflict "seems to be a rather bold assertion."

2. Shipbuilding Consultants, Inc., Frank H. Rack, President
(date)

Agrees with conclusion, but believes that the "Federal fleet should be limited to combatants."

3. Center for Strategic and International Studies, Paula J. Pettavino
April 30, 1985

I do not believe that the next war will necessarily be a short "come as you are" conflict and that we will be forced to fight only with what capacity is on hand. Although an extented contingency also implies ample time to gear up industrially, there still exists the danger than an industry allowed to fold in peacetime will take considerable resources to resume production.

4. Vice Admiral R. H. Scarborough, USCG (RET)
April 30, 1985

I am in particular agreement with your observation as to the dependence of wartime sealift requirements upon U.S.-owned, flagged, or controlled shipping, and on trained U.S. crews. Your observations that while the number of mariners may be adequate training may not be, and that the Navy should review the MMR-USNR program are especially perceptive.

Conclusion 2

Despite several recent major shipyard closures, the United States still has a very large shipbuilding and ship repair capacity, one of the largest in the world. There is sufficient surge capacity within those yards expected to survive economically, without direct government supports, to satisfy wartime needs as defined by current defense scenarios. No Federal support of shipyards is necessary beyond the peacetime defense contract work.

1. Shipbuilders Council of America
April 8, 1985

At the present time, the United States has a substantial shipbuilding and shiprepair capacity supported almost entirely by the Navy newbuilding program of combatants and T-ships and the Navy overhaul and repair program. The T-ship program is coming to an end and the Navy has, for budgeting reasons, decided to stretch out its overhaul and repair programs. In the absence of a commercial shipbuilding program, this substantial capacity is and will disappear at an alarming rate.

The same serious picture exists with respect to facilities in the active shipbuilding base as defined by the Maritime Administration and the Navy. Here from a total of 27 shipyards existing in Feb. 1980, there are now 23 and only four are operating at or near optimum capacity. In all likelihood, this nation will see the permanent closing of additional yards within the next few years.

2. Shipbuilding Consultants, Inc., Frank H. Rack, President
April 16, 1985

Agree, U.S. shipbuilding capacity is very much understated. Ships under contract presently can be constructed in 1/2 or less construction time and at 20 to 40% less cost than contract price. The technology exists!!!

3. Center for Naval Analysis
April 17, 1985

On one level, I wonder why NACOA finds more spare capacity than the SYMBA/NADES studies did. To the extent that a reconciliation is possible, it would be enlightening. On another level, where will the shipyard base be in 1995 if the Navy's 600-ship target is attained around 1991? Will maintenance and repair work for the Navy, and a much reduced level of new building be enough?

4. Todd, Pacific Shipyards Corporation, Seattle Division
April 25, 1985

In 1982, this yard employed 4,600 people. It now employs 1,100 and 600 of those jobs will disappear in the next eight months. Surely, this kind of data does not support conclusion No. 2 of the report.

5. Dr. A. N. Perakis, Department of Naval Architecture and Marine Engineering, University of Michigan
April 25, 1985

I agree with NACOA's conclusions that the present U.S. shipbuilding and repair (S&R) capacity is more than adequate, even excluding subsidized yards.

6. Maritime Administration, Admiral H.E. Shear, Maritime Administrator
April 28, 1985

We agree in general with the findings regarding the adequacy of the shipbuilding mobilization base.

7. Center for Strategic and International Studies, Paula J. Pettavino
April 30, 1985

In addition, I was not at all convinced that sufficient shipbuilding capacity will exist in a naval monopsony. What happens after 600 ships?

Conclusion 3

Requirements to build in U.S. shipyards have, in recent years, impaired the competitiveness of U.S. operators of oceangoing, self-propelled cargo vessels, and have contributed to the decline in the U.S.-flag fleet. Through subsidies, tax credits and increased freight rates, these measures also have imposed costs on the U.S. public at large. Despite their intent to support the domestic shipbuilding industry, the build-U.S. requirements have failed in recent years to create substantial commercial work in U.S. shipyards.

1. Shipbuilders Council of America
April 8, 1985

This conclusion ignores the deadly affect of the unresolved CDS repayment issue on the Jones Act market. Under this proposal, the Secretary of Transportation would, by rulemaking, permit the owners of a vessel built with the assistance of CDS for the foreign trade to repay the subsidy and allow the vessel to engage in the Jones Act trade. No independent tanker owner can sensibly invest in new or replacement tonnage for the coastwise trade with the threat of 25 relatively new subsidized vessels of 2.8 million dwt being placed in the trade.

Conclusion 4

Most recent proposals to aid the U.S. shipbuilding industry -- such as a federally funded merchant shipbuilding program, renewed construction subsidies, a federally backed maritime redevelopment bank, and expanded cargo preference -- are either too small in scope to be of

significant impact, do not address the most serious problems, or would create larger problems.

1. Newport News Shipbuilding and Dry Dock Company
April 4, 1985

Concerning bulk cargo preference, Newport News states that "this is the only viable method of rebuilding the U.S. flag fleet and the shipbuilding mobilization base to a reasonable level required for economic and defense security. This concept is totally rejected because it flys in the face of the utopian dream of free trade. We consider the discussion to be shallow, confusing, and obviously structured to discredit an excellent approach to merchant sealift.

2. Shipbuilders Council of America
April 8, 1985

This conclusion begs the question. Assuming there is a valid and justifiable basis for a shipbuilding base beyond that maintained by the Navy newbuilding and repair programs, there is going to be a cost to the federal treasury. This is because at the present time and for the foreseeable future there is no possible way that the U.S. shipyards can be price competitive with commercial vessels constructed in Asian shipyards.

This means that there will be either a direct or indirect cost to the federal treasury of any program to stimulate the construction of commerical vessels in U.S. yards for the foreign trade.

3. Menefee, Samual Pyeatt
May 6, 1985

I am unsure that some form of cargo preference for United States vessels engaged in international trade is a bad idea. This could be limited to imports, with the proviso that it would not apply to any country whose own imports from the United States had exceeded exports to our country in the previous year. An import limitation should satisfy most domestic critics of the concept, as it would not penalize U.S. exporters. A further provision allowing the application of further cargo preference schemes to "balance" those of countries instituting stricter regimes would, I think, reduce any negative international implications.

Recommendation 1

NACOA recommends opposition to proposals for a Federal shipbuilding program for commercial sealift vessels -- or any other program requiring major Federal funding -- designed largely to provide peacetime work for U.S. shipyards and to preserve the present excess capacity in the shipbuilding base.

1. Shipbuilders Council of America
April 8, 1985

This recommendation is negative in nature. The federal government would sit on its hands and do nothing to address what the Council believes is a pressing national problem requiring a national solution, i.e., the loss of a not unsubstantial portion of the shipbuilding, shiprepair and supplier base in the United States required for national security. This recommendation does not add vessels to the U.S.-flag fleet.

2. Maritime Administration, Admiral H.E. Shear, Administrator
April 28, 1985

We agree in general with the . . . recommendation against Federal subsidies for commercial shipbuilding.

3. Menefee, Samual Pyeatt
May 6, 1985

I also feel that the government should underwrite a program of construction of merchant vessels in selected American shipyards. These ships would be designed by the Navy for military support purposes in conjunction with an advisory board of American shippers in order that the vessels would have a strong, if secondary, commercial utility. The vessels would then be sold or charterd to American shippers with the proviso that they would be U.S. flagged and made available, on a scheduled basis, for maneuvers and inspections to insure their continued military fitness. In return, such vessels would be given priority over a period of years (as determined by their estimated useful life for national defense purposes) in the United States cargo preference scheme for international trade.

Recommendation 2

With respect to government-owned merchant sealift vessels, NACOA recommends that:

(a) In order to decrease the Nation's dependence on a government-owned and maintained Ready Reserve Force, the Navy and the Congress place greater emphasis on examining alternatives for increasing the numbers and the military usefulness of the operating U.S.-flag commercial fleet.

(b) The Navy and the Maritime Administration continue efforts to reduce the size and increase the readiness of the reserve sealift fleets, including continued scrapping of the World War II VICTORY ships and dispersing of the Ready Reserve Force vessels to locations nearer to planned activation sites.

1. Shipbuilders Council of America
April 8, 1985

Concerning subpart (a): it is our view that the Navy has little or no options in this area because of the rapid decline in the size of the U.S.-flag merchant fleet. Indeed, the liner sector of this fleet con-

sists of less than 200 vessels actively engaged in the foreign trade; and the bulk sector is, for all practical purposes, nonexistent. In addition, the type and characteristics of the newer liner vessels in the fleet, namely large non-self-sustaining containerships, present the military with severe operational sealift problems.

As to subpart (b), the Council believes that, but for the vessels in the Ready Reserve Force (RRF), the National Defense Reserve Fleet consists of "rust buckets" which should be scrapped as quickly as possible to reduce the drain that maintenance of these ships represent on the Maritime Administration budget. The resulting savings could be used to acquire more militarily useful ships for the RRF or as seed money for a build-and-charter program. This recommendation does not add vessels to the U.S.-flag fleet.

2. Department of Defense, Office of the Secretary, Deborah P. Christie, Division Director, Projection Forces and Analytical Support
April 10, 1985

The draft report recommends that we fully examine other alternatives before funding our proposed RRF expansion. In some places, it says NACOA opposes further expansion of the RRF. I view this as asking us to trade a well defined program for one that cannot now be defined and, therefore, that may not exist. We have carefully examined the extent to which we can expand our program for modifying containerships to carry the full range of unit equipment. Our analysis shows that we cannot convert more than about 50 ships (as now planned) without impinging on our ability to move supply and ammunition. The Sealift Enhancement Features program increases the usefulness of ships that already have some military utility but does not expand the set of militarily useful ships. I am unaware of any proposal to convert other classes of ships that have no military utility (e.g., grain carriers) to a useful configuration. Various proposals to expand the U.S. flag fleet have not been fully formulated and tested with Congress and in the marketplace. Thus, we do not have an alternative to the RRF that could be implemented now, yet we need to buy ships for the RRF when they become available lest they be scrapped.

I suggest a dual track approach of buying suitable RRF candidates and testing promising ideas for expanding the flag fleet. If the latter work well, we can always put RRF ships into a less ready status thereby saving most of the annual operating expense, which comprises most of the RRF's cost.

3. Department of the Navy, E.E. Shoultz, Amphibious Warfare and Strategic Sealift Program
April 15, 1985

RECOMMENDATION 2A - NONCONCUR

The Ready Reserve Force is intended to ensure readiness/availability of shipping, not to increase dry cargo capacity in the Reserve Fleet. The Government-controlled active and reserve ships are readily

available to respond to contingency mobilization requirements. Greater reliance on active comercial ships as NACOA recommends leads to problems of ensuring ship availabilty/readiness to deply forces during the first 5-10 day series.

4. Shipbuilding Consultants, Inc., Frank H. Rack, President
April 16, 1985

a) The ready reserve force is a loser!
b) MSC and DOD should continue to shift ownership of its sealift vessels to the private sector, and should continue to offer long-term charters to encourage private building or buying of vessels for this purpose.

5. Center for Naval Analysis
April 17, 1985

NACOA recommends that the Navy stop enlarging the Ready Reserve Force (RRF) and concentrate instead on sealift enhancement features for active commercial ships. Your table 20 provides a cost comparison of different sealift approaches. If one converts those program costs into either present values or into total annualized costs, it appears that spending for the RRF is not cost effective, while spending for enhancement features on active vessels is. However, your figures in table 20, and your related analysis, implicitly assume that: (1) A U.S.-flag commercial fleet of adequate size will remain in existence in the years ahead, and (2) that it will do so without any expenditures for new policy initiatives to bolster it. If these implicit assumptions are not true, the cost of the "sealift enhancement feature" option needs to be raised to reflect the cost of policies that will maintain the economic viability of the commercial ships. Apparently it is NACOA's view that when ship operators are allowed to build and repair abroad -- an option that requires no new policy expenditures--they will be able to effectively compete. It certainly would help, but that gets us back to the need for an explicit estimation of the cost curves of U.S. ship operators relative to foreign operators. Without solid empirical evidence of potential commercial fleet viability, it might be premature for the Navy to shift to programs that are dependent upon it.

6. Maritime Administration, Admiral H.E. Shear, Administrator
April 28, 1985

We do not agree with the draft report's interpretation of the requirements for RRF ships or its suggestion that increased dependence on commercial vessels for military deployment is a realistic alternative at this time. We recommend that NACOA look further into this subject. In fact, the Navy's current formal RRF program objective (not, as the paper suggests, a "proposal") of 100 dry cargo ships and 16 tankers, represents a calculated lift requirement based on a detailed, intensive DOD analysis of time-phased military movement requirements assuming full use of projected commercial resources.

Recommendation 3

With respect to privately owned U.S.-flag merchant vessels, NACOA recommends that:

(a) The Department of Defense and the Congress increase the emphasis on research and implementation of methods for adapting modern commercially efficient vessels to military purposes -- rather than acquiring ships that have in the past been considered more "militarily useful" but can no longer be effectively used in peacetime trade.

(b) The Navy, the Small Business Administration, and the Congress carefully examine the possibility of cost reductions in the proposed containership modification program.

(c) The Congress fund Department of Defense plans for Sealift Enhancement Features to be added to U.S.-flag merchant vessels in peacetime, with vessel owners fully compensated to the extent that such modifications interfere with commercial use of the vessel during installation and subsequent operations.

1. Shipbuilders Council of America
April 8, 1985

This recommendation is difficult to quarrel with. Also, so-called "defense features" or "sealift enhancement features" have been part of the Merchant Marine Act of 1936 for years. The only real difference is that the government would pay the operator monies to offset the fact that such features would negatively impact on the commercial efficiency of the vessel. Here the issue is the scope and extent of the features and out of whose budget such features are funded. This recommendation does not add vessels to the U.S.-flag fleet.

2. Congressional Budget Office
April 10, 1985

It is not easy to transform a large, slow, specialized, non-selfsustaining ship, which is productive in commercial trade, into a smaller, faster, general purpose, selfsustaining ship needed to support military operations in time of war. Sea sheds and flat racks can help improve cargo capbility, but with substantial expense for procurement, maintenance, and storage. A crane ship can load and off load a non-selfsustaining ship, but it is also costly and must be at the loading and off loading site when required. Nothing much can be done to get a large ship into a shallow port or to get it there faster than its designed speed. Ships unsuited to military sealift must be married with their special cargo equipment and with their loading and off loading facility. This complicates scheduling in the duress of mobilization and can lead to tragic and almost certain fiascos in war. There is no free ride on sealift. The issue is whether we want to spend our money on militarily useful ships or on ships that are not militarily useful.

3. Department of the Navy, E.E. Shoultz, Amphibious Warfare and Strategic Sealift Program
April 15, 1985

RECOMMENDATION 3B - NONCONCUR

NACOA's belief that possibilities of a more cost-effective approach should be fully explored before a major purchase of seasheds and flatracks is made appears to be based on remarks made at a Navy-sponsored conference. As stated in the report, the remarks addressed the possibility that the modification of containerships may be able to be achieved at a lower cost. No alternative to flatracks or seasheds has been advanced to the Government as an efficient method to carry unit equipment in containerships.

4. Sea-Land Coporation
April 16, 1985

Seal-Land supports proposals to increase the number of private U.S.-flag vessels owned by U.S. citizens on a basis that treats all carrier competitors fairly. The U.S. Government should pay for all "sealift enhancement features" on U.S.-flag ships, whether built in the United States or abroad.

5. Maritime Administration, Admiral H.E. Shear, Administrator
April 28, 1985

We also agree that all possible use should be made of active commercial vessels for military sealift and that government-funded sealift enhancement features to facilitate such use should be as efficient and economical as possible.

Recommendation 4

NACOA recommends that the Navy take steps to ensure the availability, training and readiness of U.S. crews needed for mobilization of reserve and foreign-flag sealift vessels; that the Navy seek, and the Congress appropriate, funding for an enhancement of the Navy's Merchant Marine Reserve.

1. The Center for Advanced Maritime Studies, Captain George M Marshall, Director
October 30, 1985

I have some serious reservations about the availability of well trained crews to man the fleet in a surge situation. It seems to me that the maritime acadey facilities in the United States should be taken into account as training sites for merchant marine reserve officer training programs conducted on a year-roung basis in order to maintain the hard earned skills of merchant seamen presently employed ashore.

In the report you indicate that the issue of merchant mariner readiness requires further attention. I agree heartily with that comment. Reduced enrollments at all maritime academies have freed up accommodations for reserve programs and would be a source of much needed income to help sustain these facilities for mobilization purposes.

Recommendation 5

NACOA recommends that the Administration and the Congress continue to unlink national shipping and shipbuilding policies by eliminating all requirements for U.S.-flag operators receiving government supports to build vessels in U.S. shipyards.

We recommend specific amendments to the Merchant Marine Act of 1936 to:

(a) Allow permanent authority for U.S. operators to build vessels in foreign shipyards and still receive Operating Differential Subsidy, or whatever supports or incentives may replace that subsidy, for operating in the U.S. foreign trades.

(b) Allow Capital Construction Fund deferral of taxes on shipping if reinvested in foreign-built as well as U.S.-built new vessels.

In addition, we recommend:

(c) Revision of regulations and administrative practice to allow Title XI Federal Ship Loan Guarantees for foreign vessel construction, with priority on loan guarantees that will provide growth and replacement in trades not already overtonnaged.

(d) Amendment of the provisions in various laws regarding eligibility to carry government-impelled cargos to allow immediate eligibility to a foreign-built vessel rather than the presently required 3-year wait.

1. Shipbuilders Council of America
   April 8, 1985

This recommendation represents nothing more than the position espoused by the U.S.-flag liner operators before the Congress the last few years. The Shipbuilders Council believes that enactment of "build/foreign" authority will result in the addition of only a handful of ships to the U.S.-flag liner fleet because of the financial position of that fleet.

[For reasons stated more fully in the comment and response letter] "the maximum number of vessels that could be anticipated to be built abroad and added to the U.S.-flag fleet is 4."

2. Congressional Budget Office
   April 10, 1985

It is fatuous to suggest that shipping and shipbuilding policies can be "delinked." They are linked by nature and a decision to remove inducements for ship operators to buy American is a decision to abandon support for the commercial shipbuilding industry, not a decision to "delink" shipping and shipbuilding policy. Policy recommendations should be called by their proper name.

3. Sea-Land Corporation
April 16, 1985

Concerning subpart (a), Sea-Land supports unlinking the shipping and shipbuilding policies, but, Sea-Land opposes payment of ODS to foreign-built, U.S.-flag ships. Administration policy limits ODS to a select few lines with a prohibition on new ODS contracts. Extending ODS to foreign-built ships would be highly unfair and discriminatory to non-subsidized U.S.-flag carriers.

4. American President Lines, LTD.
April 16, 1985

Authority to build, acquire or convert vessels in foreign yards is necessary to provide U.S. operators cost parity with foreign operators. It is also consistent with the policies applicable to other transportation modes; rail, aircraft and motor carrier operators are all permitted to acquire equipment outside the United States for use in domestic and foreign commerce. Prohibiting foreign building will not help this country's shipyards, since no U.S. owner is in a position to shoulder the tremendous disparity between U.S. and foreign building costs, but will merely prevent continued modernization of the fleet and harm its competitiveness.

5. Center for Naval Analysis
April 17, 1985

U.S. ship operators have had to bear the burden of shoring up the domestic shipyard base, and that in the absence of sizeable subsidies the ship operators will never become competitive unless they are allowed to build and repair abroad. In other words, using foreign shipyards is a <u>necessary</u> condition for the commercial viability of the U.S.-flag fleet. On the other hand, there is little in the way of quantitative evidence to demonstrate that the NACOA recommendations are <u>sufficient</u> to deliver a competitive U.S.-flag fleet in either international or Jones Act trades. What is still required is a "costing out" of the policies in the NACOA package (such as foreign building and repair, and limited ODS) demonstrating that these changes would provide various segments of the U.S. commercial fleet with cost structures that would enable them to stand on their own in specific cargo-carrying markets.

6. Maritime Administration, Admiral H.E. Shear, Administrator
April 28, 1985

<u>We agree</u> with the recommendations that subsidized operators should be permitted to acquire ships abroad and that foreign-built ships should

be made immediately eligible to carry government-impelled preference cargo. The Administration has submitted legislative proposals to the 99th Congress covering these two initiatives. In this regard, it should be noted that measures advocated by NACOA to repeal the 50 percent ad valorem duty on repairs performed abroad and to apply Capital Construction Funds to foreign building are not included among the Administration's current proposals, and that the Administration has not favored application of Title XI to foreign building (although it is not precluded by law, as the draft report implies).

7. Council of American-Flag Ship Operators
May 3, 1985

[In general the Council of American-Flag Ship Operators supports Recommendation 5 in its entirety. In summary, they give] strong support for your recommendation that U.S.-flag operators be permitted to build, acquire or construct vessels in foreign shipyards and operate such vessels under their operating subsidy contracts. The future of the U.S.-flag liner industry will depend on its ability to acquire the modern, efficient and economical vessels now available only in foreign yards. Build-foreign authority can also provide substantial direct financial benefit to the government by reducing operating differential subsidy (ODS) outlays. Finally, CASO supports NACOA's recommendation that foreign-built ships be immediately eligible to carry preference cargo and eligible to be constructed with CCF funds.

8. Menefree, Samuel Pyeatt
May 6, 1985

It seems particularly useful that NACOA is questioning the automatic linkage which has existed in the past between shipper and ship-builder.

Recommendation 6

NACOA recommends that the Congress amend current maritime statutes that impair the competitiveness of U.S. vessels in foreign trade. Specifically, we recommend:

(a) Establishment of a new form of operating incentives, under short-term (5-year) contracts, that are linked to the success of measures to reduce crew size and operating costs.

(b) Amendment of the ad valorem tax provision in the Tariff Act of 1922 to exempt oceangoing, self-propelled cargo ships from the duty on non-emergency foreign shipyard repairs.

(c) Amendment or repeal of such shipboard manning laws and regulations as the "Crossover Law" and the "Three-Watch Law" to allow reductions in U.S. vessel crew size comparable to those of most other major seafaring nations.

1. Congressional Budget Office
   April 10, 1985

Concerning subpart (c), although crew size reductions would reduce manning costs somewhat, the reductions would not overcome the manning cost differential between U.S. and foreign operators. It would also have the effect of reducing jobs for U.S. mariners which would be counter to one of our objectives. Seagoing jobs will increase only if U.S. shipping expands and that will not happen unless operating costs become less than foreign competition, which is unlikely, or unless government supports are increased. Reducing manning should (but not necessarily would) reduce subsidy costs. That would be a case where you get less if you pay less.

Recommendation 7

NACOA recommends that the Administration and the Congress develop a package of incentives, in addition to those in recommendations #5 and #6, to attract foreign-registered vessels -- under U.S. or foreign ownership -- to the U.S. flag. We recommend that such a set of incentives include a liberalizing of registry regulations for reflagged vessels, giving assurances to owners that they may easily "flag out" again during a certain number of years.

1. Shipbuilders Council of America
   April 8, 1985

This recommendation is, at best, a vague generality unsupported by any documentation in the record before the NACOA Shipbuilding Panel. There are a number of concrete reasons why the foreign-flag vessels owned by U.S. citizens will not be reflagged U.S., of which not the least would be the cost to upgrade the ships to comply with U.S. Coast Guard standards. In addition, the owners and operators of these vessels are free from the manning requirements applicable to U.S.-flag vessels and free from the substantial pension liabilities and obligations of operators of U.S.-flag vessels. Moreover, the belief that immediate access of reflagged vessels to government-impelled cargoes is any incentive is absurd. We know of no vessel ever built solely for the preference trades. This recommendation does not add vessels to the U.S.-flag fleet.

2. Congressional Budget Office
   April 10, 1985

Reflagging will occur only if there is a financial advantage to the owner of the ship. Since U.S. registry and the requirement to pay U.S. wages would increase operating costs, it would occur only if the taxpayers pay, directly or indirectly, for it to happen. It won't be free. The cost of inducing reregistration should be calculated.

3. Maritime Administration, Admiral H.E. Shear, Administrator
   April 28, 1985

Although we favor the reflagging of U.S.-owned foreign flag ships to the extent possible, we do not believe it would add significantly to U.S. military sealift capability and we have doubts as to whether it would be economically practical, even if the suggested inducements were feasible. We suggest that NACOA examine this subject more closely. The report would be more useful on this point if it were to present a more detailed analysis of the economics of reflagging.

Recommendation 8

NACOA recommends amendment of the Jones Act to allow a 10-year "coproduction" period of some U.S. and some foreign building of new commercial cargo ships for the Jones Act domestic trade. We recommend that these provisions be applicable only to large oceangoing, self-propelled, cargo-carrying ships that are capable of contributing to the Nation's sealift needs in the case of a national emergency. We further recommend that the provisions be written so that U.S. operators may earn credits for orders placed in U.S. shipyards and use those credits for an equal dollar amount of construction or conversion orders in foreign shipyards; we believe such credits should be transferable.

1. **Shipbuilders Council of America**
   April 8, 1985

One basis given in the draft report for this recommendation is the fact that very few vessels have been built recently for the Jones Act trade. There are reasons for this phenomenon. First is the threat of CDS repayment resulting in the dumping of a huge amount of tonnage into the trade. Second is the relationship between supply and demand. A shipowner cannot intelligently order new ships without the prospect for cargo to fill them. On the other hand, owners will build ships to serve a viable market. Illustrative was the period of the early 1970's when U.S.-flag tanker owners invested millions of dollars in new vessels to serve the Alaska North Slope crude oil market.

This recommendation would disrupt the one commercial market presently available for U.S. shipbuilders. Also, it would create real problems of fairness for those operators who invested monies to build ships under the existing ground rules for the coastwise trade. Finally, it is unclear how this recommendation would be implemented.

2. **Westminster Ventures, Inc.**
   April 11, 1985

I find myself generally in agreement with all of them, except possible the proposed "co-production" requirement in the Jones Act trades which seems to be a somewhat cumbersome compromise. I would have favored simply removing the build-U.S. requirement for the Jones Act, without limitation. This should remain an option, to be reviewed at a later date in the event the co-production scenario fails to achieve the desired result.

3. **Sea-Land Corporation**
April 16, 1985

Any program to produce ships for domestic trades should depend upon whether there is a commercial demand for additional ships. Artificially producing an excess capacity in domestic trades would destroy financial viability of existing carriers.

4. **McConnell, John W. Jr.**
April 23, 1985

I feel that this [recommendation] is a breakthrough and will benefit Alaska, Hawaii and Puerto Rico, which areas have no other means of transportation, but still may not make the coastwise trade, which competes with rails, trucks, pipelines and other modes of transportation, viable. (Also it may create another interest opposed to ultimate unlimited assess to the trade by foreign-built vessels.)

5. **Maritime Administration, Admiral H.E. Shear, Administrator**
April 28, 1985

We do not agree with the proposal of provision for foreign building of Jones Act ships. With the construction of commercial vessels for the foreign trade effectively precluded, Jones Act shipping provides the only commercial market left to U.S. shipbuilders. Although only marginally at present, this does help to sustain the mobilization base, and provides a necessary hedge against the eventual completion of the Navy's current building program.

6. **Menefee, Samuel Pyeatt**
May 6, 1985

The Jones Act requirement that vessels engaged in coastal trade be American-built should be phased out, allowing foreign-built vessels to be flagged in the U.S. fleet. (Initially, this could be limited to those foreign-built vessels undergoing substantial refits in U.S. yards.) Entry of such vessels into the domestic trade could be limited to a certain amount of tonnage a year, with further preference given to those foreign vessels employing a significant percentage of Americans in their crews. Vessels built in U.S. yards, however, should be given the right to participate in domestic trade with a limited proportion of foreign crew provided these seamen are members of an American union.

7. **Transportation Institute**
July 1, 1985

One foreign-build recommendation which requires a cautious review, is the proposal to allow foreign-built vessels and ship components into Jones Act trades based on a credit scheme allowing foreign-build permission as a ration of U.S.-built assets. The question of negative competitive consequences for those operators having substantial U.S.-built/Jones Act assets who are forced to compete with cheaper foreign-built assets, has not been adequately reviewed. In our view, a

proposal which improves the competitive posture of domestic waterborne transport vis-a-vis other modes is worthwhile, but not at the price of harm to unsuspecting operators caught in the cross currents of major policy changes. Many existing operators have made substantial investments of assets in accordance with the existing system. At the very least, some mechanism would have to be established which would not penalize domestic operators utilizing older but still useful craft purchased and planned under the existing system.

Studies conducted by the Institute on the impact of foreign-built assets introduced in the Alaskan trades portion of the Jones Act, have shown that the savings in transportation costs amount to less than a one percent reduction in consumer costs, which would not be passed on to the consumer. Operators, however, would have an enormous burden if they utilized U.S.-built assets. Thus, the Alaskan consumer would see no change, U.S. yards and U.S. operators would suffer, and only foreign shipyards would gain. In view of those results, we would be inclined to oppose the introduction of foreign-built assets into the Jones Act.

[Questions submitted by the Senators of the Armed Forces Sea Power and Force Projection Subcommittee, with answers supplied, follow:]

Questions Submitted by Senator Pete Wilson

Senator Wilson. Mr. Gilbride, in terms of present and potential workloads, what is the present state of the individual yards on the West Coast?

Mr. Gilbride. The ideal total employment level, not including subcontractors, is approximately 33,000 employees for all West Coast shipyards from the Mexican to the Canadian borders. This figure pertains to those shipyards in the private sector that can repair, convert, or construct major vessels of the United States Navy. Under more normal circumstances of relatively steady activity such as occurred in the early 1980's, the employment breakdown by metropolitan area would be as follows: San Diego—9,000; Los Angeles—6,000; San Francisco—3,000; Portland—3,000; and Seattle—12,000.

Today, the major private West Coast yards employ 14,500, not 33,000. The approximate breakdown is as follows: San Diego—6,000; Los Angeles—3,000; San Francisco—1,500; Portland—1,000; and Seattle—3,000.

In the past, the five major yards that normally are fully engaged in new construction employed the bulk of the employees. All yards, large and small, aggressively compete over repair and overhaul jobs.

All new construction work on the West Coast is either complete or rapidly being completed, with no known new construction projects that could enter the production cycle within the next two years. The status of the five major yards that make up the National Shipbuilding Industrial Mobilization Base on the West Coast and, thus, are capable of building vessels in excess of 475 feet long is as follows:

Tacoma Boat has recently filed for bankruptcy.

Lockheed has dropped from 3,500 employees to 1,500 in three years. It is finishing up two LSD's, with no Navy new construction on the West Coast scheduled in the future.

Todd-Seattle has completed 13 FFG's and the dry dock ARDM-5. It is now engaged in repair and overhaul work. No new construction activity is taking place. Employment has dropped by over three thousand in less than three years.

Todd-Los Angeles is rapidly completing its last three FFG's. In three years, its employment level has gone from 5,500 to less than 2,500.

National Steel and Shipbuilding is now operating at 4,500. More than 1,000 employees are scheduled to be laid off in the next six months.

The West Coast problem is exacerbated by the fact that the other two market segments, commercial work and Navy repair/overhaul, are also facing severe downturns:

The commercial market is virtually nil.

The Navy repair/overhaul market is extremely minimal. There are five Navy vessels available for coast-wide bidding that are due to start in fiscal '86. All of these vessels could be readily handled by either Todd—Los Angeles, Todd—Seattle, Lockheed, or National Steel and Shipbuilding Company. Furthermore, the facilities in

any of the five ports, San Diego, Los Angeles, San Francisco, Portland, or Seattle, could also accommodate the entire available market utilizing a number of combinations of the smaller yards.

In short, every yard and every major port area on the West Coast needs work. More West Coast bidding opportunities is the only answer.

Senator WILSON. Mr. Gilbride, Mr. Pyatt claims in his testimony that the shipyard industry can decline to about 80% of current capacity in production workers without any problem in maintaining an adequate mobilization capability. What impact would such a decline have on the West Coast work forces production capabilities?

Mr. GILBRIDE. Currently, the private shipyards in the country number 23 major yards and 85 or so smaller yards that have and now do business with the United States Navy. Total employment, including administrative personnel but excluding subcontractors, is about 150,000 individuals. It may be possible that 80% of the 150,000 total employees could handle the Navy's short-term needs.

However, the problem is that the West Coast has been faced with a disproportionately larger employment decline than recently experienced by the other regions of the country. As an example, since 1982, employment has declined in private shipyards by 39% on the West Coast, but by less than 1% on the East Coast.

As I mentioned in my previous answer, private West Coast yards are now operating at about 40% not of capacity, but of level at which they could adequately sustain themselves. Furthermore, workload and bidding opportunities continue to decrease.

The West Coast yards cannot continue to sustain themselves much longer with the present Navy workload. A 20% cut would simply make a bad situation that much worse.

Senator WILSON. Would such a decrease, then, increase the risk of having skilled shipyard workers transfer to other skill jobs, thus reducing the necessary pool of workers below an adequate level for mobilization?

Mr. GILBRIDE. There is absolutely no question about this. In the past three years, we have already lost 9,000 of the 12,000 shipyard workers that were employed in the Seattle area alone in 1982. We estimate that it takes five years and $25,000 in training cost to properly develop a highly skilled shipyard worker capable of repairing, building, or overhauling surface combatants. Without the prospects of long-term job security via a new construction program or a series of multiple vessel overhauls, your best mechanics will look for and find work outside of the industry. Most will never return; surely, none will return for short-term sporadic shipyard employment opportunities.

Senator WILSON. What, in your opinion, is the number of workers and facilities that must be maintained so that West Coast yards can support the Navy with the necessary surge capacity in times of crisis? Can this be met with the present and projected amount of work going to West Coast yards?

Mr. GILBRIDE. In my opinion, we need at least 30,000 total West Coast shipyard employees to maintain an adequate long-term base of human and facility resources. A smaller number may maintain resources for a short period. The current level of less than 15,000 is totally inadequate. Of even greater concern is that this level will decline further in fiscal '86 and subsequent years unless immediate corrective action is taken.

The present and projected amount of work is not nearly enough. The West Coast needs to be participating in the construction of at least two classes of major naval vessels and also have roughly thirty major repair/overhaul availabilities each fiscal year for coast-wide competition. This compares to the current situation of no new construction awarded in fiscal year '85 and probably none in fiscal '86 as well as limited Navy repair/overhaul opportunities. Only five ships will be awarded on the West Coast via coast-wide competition in fiscal 1986. This amounts to only 1,000 jobs. The 17 two- and three-month repair jobs bidding in homeport areas in the same period add 1,400 jobs, all in Southern California. At best, this totals only 2,400 jobs—less than 10% of an adequate employment base.

We cannot meet mobilization requirements presently and the situation is getting worse.

[Whereupon at 1:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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